

CONSOLIDATED FINANCIAL STATEMENT FINANCIAL STATEMENT

2018

A stylized illustration of a mountain range with white peaks and blue shadows, reflected in a blue body of water below. The mountains are rendered in a geometric, faceted style.

**XV CONSOLIDATED FINANCIAL STATEMENT
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2018

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**Approved by Ordinary Shareholders' Meeting
on June 28th, 2019**



SOCIETÀ METROPOLITANA ACQUE TORINO

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SOCIETÀ METROPOLITANA ACQUE TORINO S.p.A.
Legal offices in Turin, Corso XI Febbraio, 14
Share capital € 345,533,761.65 fully paid up
Turin Business Registry no. 07937540016
Tax code and VAT code 07937540016

INTRODUCTION

Administration and control bodies and corporate positions

■ BOARD OF DIRECTORS

The Board of Directors, appointed by the Ordinary Shareholder Meeting in compliance with articles 2364-2449 of the Italian Civil Code and 18 of the Articles of Association, is composed of:

- | | |
|----------------------|-------------------|
| • ROMANO Paolo | Chairman |
| • RANIERI Marco | Managing Director |
| • BISCOTTI Antonella | Director |
| • LANCIONE Serena | Director |
| • SESSA Fabio | Director |

■ BOARD OF AUDITORS – INTERNAL CONTROL AND ACCOUNTING AUDITS

The Board of Auditors, appointed by the Ordinary Shareholder Meeting in compliance with articles 2364-2449 of the Italian Civil Code and 18 of the Articles of Association, is composed of:

- | | |
|----------------------|--------------------|
| • GARDI Margherita | Chairwoman |
| • CARRERA Ernesto | Effective Auditor |
| • NARDELLI Gabriella | Effective Auditor |
| • MARGINI Claudia | Substitute Auditor |
| • CACCIOLA Maurizio | Substitute Auditor |

■ AUDITING FIRM

Deloitte & Touche S.p.A.

■ SUPERVISORY BODY

The Body, which is appointed by the Board of Directors, is composed of:

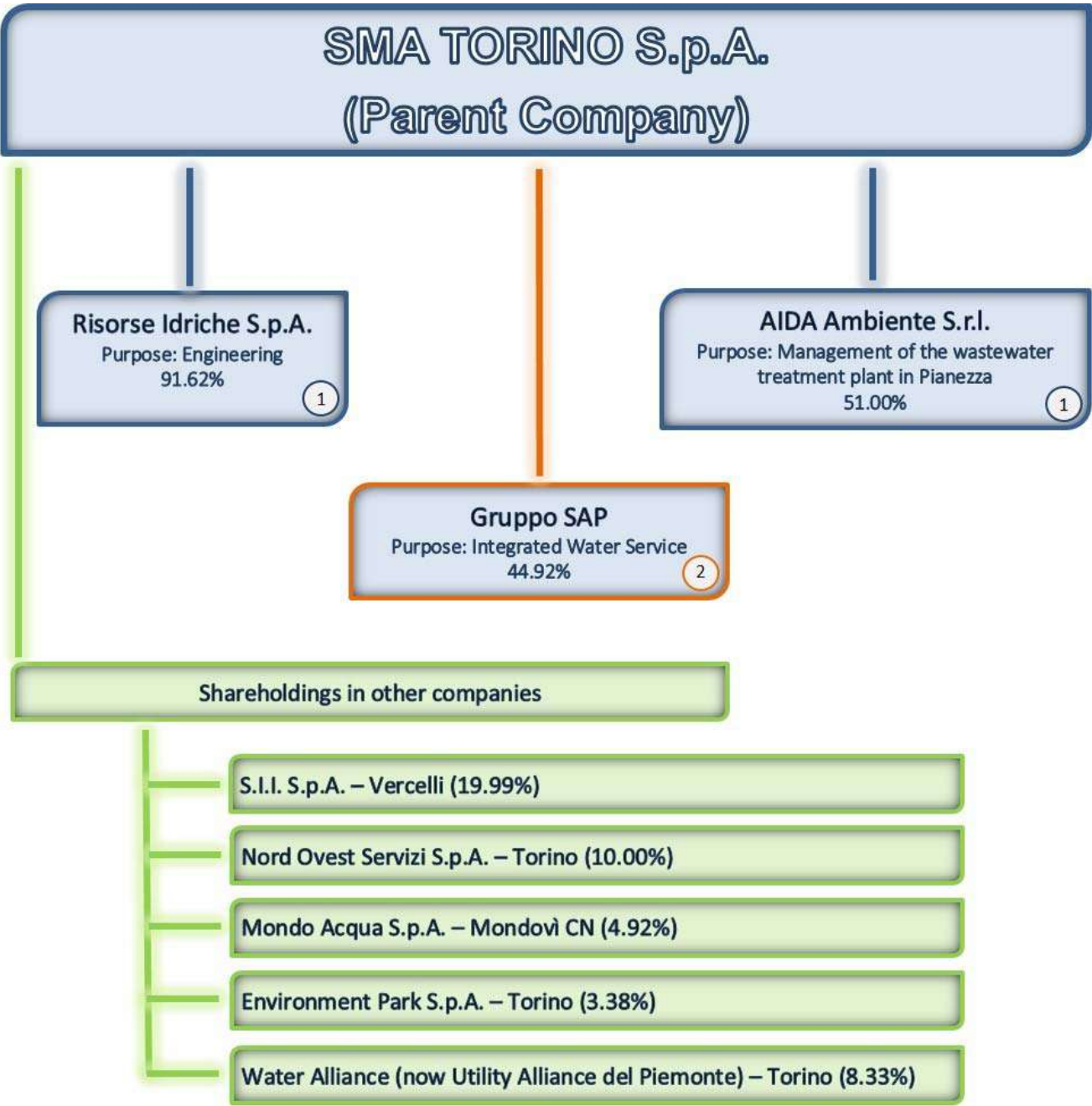
- | | |
|--------------------|----------|
| • BOCCHINO Umberto | Chairman |
| • CASSONE Cinzia | Member |
| • FINO Luisa | Member |
| • GUARINI Fulvio | Member |

■ CORRUPTION PREVENTION AND TRANSPARENCY OFFICER

Appointed by the Board of Directors:
SCIOLOTTO Roberta

■ DATA PROTECTION OFFICER

Appointed by the Board of Directors
QUAZZO Armando



Legend of background colors:

- Companies included in the consolidation area*
- Companies not included in the consolidation area*

*Consolidation methodology:

- 1 – Integral method
- 2 – Shareholding valuation with the Net Equity method

MANAGEMENT REPORT



A. SMAT GROUP DIRECTORS' REPORT

Dear Shareholders,

The financial statement results of the SMAT Group show substantial maintenance of the performance levels, determined by the business developed in the reference of /to the fiscal year by the Parent Company Società Metropolitana Acque Torino S.p.A. (hereinafter also SMA Torino S.p.A. or SMAT S.p.A.) and by its subsidiaries as the effect of direct ownership by SMA Torino S.p.A. of controlling and association shareholdings.

A1. Introduction

This financial statement of the Group and of SMA Torino S.p.A. reports the accounting data of the closing fiscal year compared to those of the previous fiscal year, which are presented based on the application of the International Financial Reporting Standards (IFRS) adopted by the European Union.

The Board of Directors of the Company, at the meeting on January 31st 2019, postponed convocation of the Shareholder Meeting for approval of the financial statement as of December 31st 2018, availing itself of the extended term of 180 days after closing of the fiscal year as contemplated by article 2364 of the Italian Civil Code and by article 14 point 5) of the current Articles of Association.

A2. Summary of the 2018 results in figures

<i>SMAT GROUP: SUMMARY OF THE RESULTS IN FIGURES</i>	Consolidated Financial Statement 2018	Consolidated Financial Statement 2017	Absolute variation	Variation %	Financial Statement 2018	Financial Statement 2017	Absolute variation	Variation %
ECONOMIC DATA								
Total Revenues	417,857	408,434	9,423	2.31%	414,902	406,336	8,567	2.11%
Gross operating margin	142,665	145,889	(3,224)	-2.21%	142,311	145,597	(3,286)	-2.26%
Gross operating margin/Total revenues	34.14%	35.72%	-1.58 p.p.		34.30%	35.83%	-1.53 p.p.	
Operating income (EBIT)	73,746	87,450	(13,704)	-15.67%	73,405	87,176	(13,771)	-15.80%
Operating income (EBIT)/Total revenues	17.65%	21.41%	-3.76 p.p.		17.69%	21.45%	-3.76 p.p.	
Net profit (loss)	51,963	60,476	(8,512)	-14.08%	51,797	60,428	(8,631)	-14.28%
Net profit (loss)/ Total Revenues	12.44%	14.81%	-2.37 p.p.		12.48%	14.87%	-2.39 p.p.	
EQUITY DATA								
Net fixed assets	789,838	758,125	31,712	4.18%	789,763	758,046	31,717	4.18%
Net equity	616,645	578,520	38,124	6.59%	615,975	577,973	38,002	6.57%
Gross financial debt	(333,808)	(382,528)	48,720	-12.74%	(333,808)	(382,528)	48,720	-12.74%
Net financial position	(213,464)	(250,532)	37,068	-14.80%	(213,996)	(250,941)	36,944	-14.72%
OTHER DATA								
Investments	90,744	80,544	10,200	12.66%	90,730	80,531	10,200	12.67%
Amortization	57,782	53,785	3,997	7.43%	57,766	53,768	3,998	7.44%
WORKFORCE¹	1,045	1,040	5	0.48%	1,013	1,010	3	0.30%
ECONOMIC/EQUITY INDICATORS								
Gross Financial Payables /Net Equity	0.54	0.66	(0.12)		0.54	0.66	(0.12)	
Gross Borrowing Need/MOL	2.34	2.62	(0.28)		2.35	2.63	(0.28)	
EBITDA/Financial expenses ²	27.05	28.95	(1.90)		27.06	28.99	(1.93)	
ROI	6.14%	7.19%	-1.05 p.p.		6.09%	7.16%	-1.07 p.p.	
ROE	8.43%	10.45%	-2.02 p.p.		8.41%	10.46%	-2.05 p.p.	
Net financial Position/Net Equity ≤ 1	0.35	0.43	(0.08)		0.35	0.43	(0.08)	
Net financial position/EBITDA ³ (EBIT+Amortization) ≤ 5	1.62	1.77	(0.15)		1.63	1.78	(0.15)	
EBITDA (EBIT+Amortization)/Net financial expenses excluding the value adjustments of financial assets $>5^4$	(499.79)	(354.66)	(145.13)		(382.26)	(237.35)	(144.91)	
Net fixed assets/Gross financial debt $\geq 1.30^5$	2.35	1.97	0.38		2.35	1.97	0.38	

¹ Including outsourced work contracts and transfer contracts

² Excluding the value adjustments of financial assets

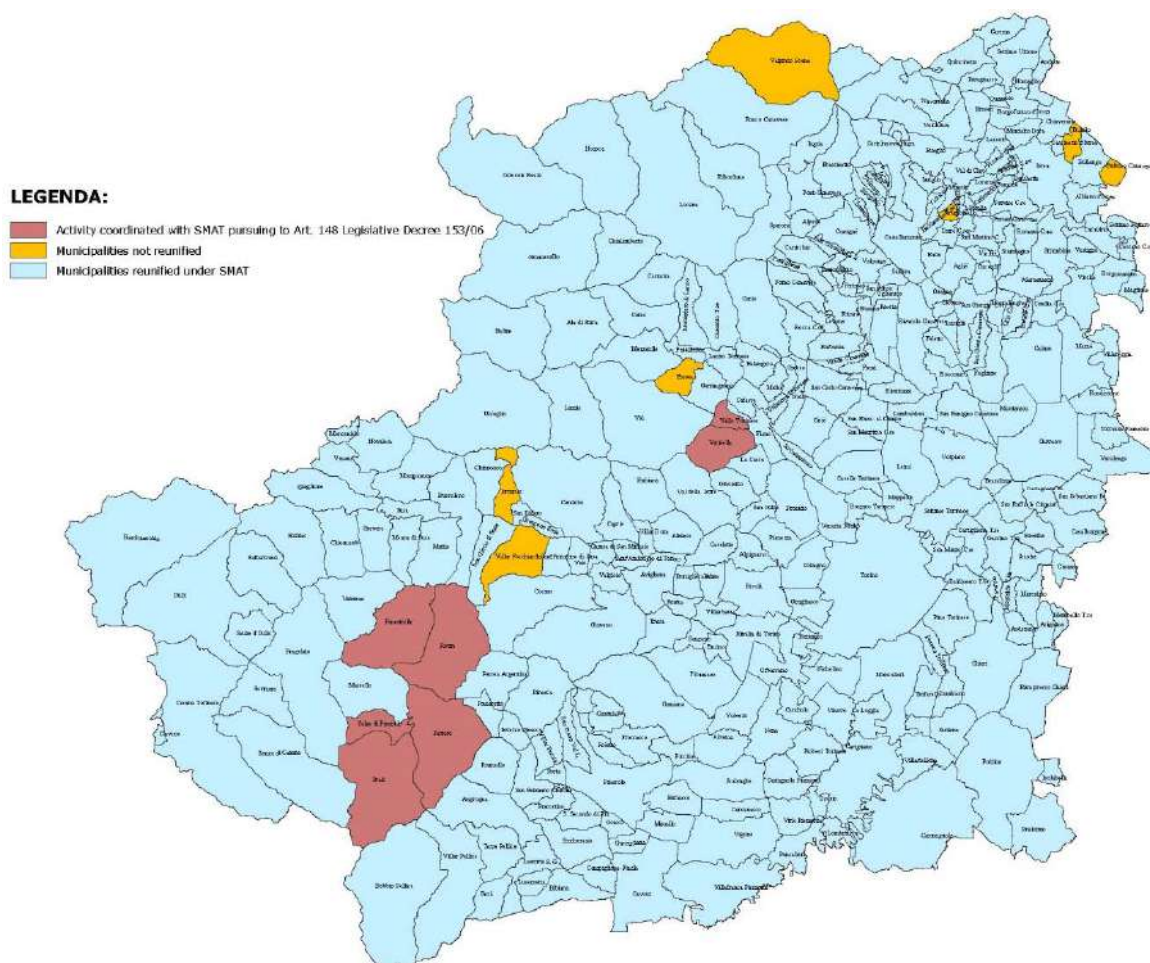
³ EBITDA or MOL intended according to contract statements as EBIT + Amortization

⁴ The ratio results negative because the item "Net financial expenses" has a positive balance, since the "Financial earnings" are greater than the expenses.

⁵ Net fixed assets excluding goodwill.

A3. Main technical data and operating area

At the end of the fiscal year, your Company provides water services in 293 Municipalities, either directly or through involved Service Operators, in addition to water treatment in the Municipalities of Burolo, Bruzolo and Villar Focchiardo.



Municipalities served as of December 31st 2018: 293	Drinking water plants: 93
Residents: 2,247,449 ⁶	Self-produced energy: 48.647 MWh
Surface area: 6,292 Km ²	Waterworks network in km: 12,483
% of the resident population served: 99.54	Sewer network in km: 9,526
Waterworks user contracts: 405,067	Water treatment plants: 413
Water invoiced: 177,244,676 m ³	Volumes treated: 358 mln m ³

Taking into account the volume estimates in the accounting period, the volume of drinking water amounted to 177,244,676 m³, delivered to 405,067 users, of which 81% were domestic user contracts. The average per capita household use is 172 l/inhabitant/day with an average demand of 4,171 l/sec; the peak demand was 6,137 l/sec on June 21st 2018.

The water production capacity was used, within a general context without any existing shutdowns, obtaining resources from:

⁶ Source ISTAT on 31.12.2017

Sources	2018
Springs	11.00%
Surface water	18.00%
Water table	71.00%
	100.00%

The urban waste water treatment systems that are directly managed, divided by potential, are as follows:

Plants with capacities up to 2,000 p.e.	n	363
Systems between 2,000 a.e. and 10,000 a.e.	n	33
Plants between 10,000 p.e. and 100,000 p.e.	n	15
Plants between 100,000 p.e. and 2,000,000 p.e.	n	1
Plants over 2,000,000 p.e.	n	1
TOTAL	n	413

With regard to the drinking water treatment plant, in 2018 the treated volume amounted to 358 million m³, of which 3.5% represents the volume of industrial wastewater, and 24,511 tons of sludge, measured in terms of dried material, were produced.

The data refers to plants that serve over 2,000 inhabitants equivalent (346 million m³ treated, of which 227 million m³ at the Castiglione Torinese plant), relative to the elimination of pollutants and treatment by-products from waste water, and shows a high index of efficiency and efficacy in the accounting period, as well as in the percentage of reduction in the following indicators:

Abated pollutants (Plants >=2,000 p.e.)	Input t/year	Output t/year	Abated	Abatement %
Total suspended solids (SST)	76,370	2,616	73,754	97
Chemical oxygen demand (COD)	128,819	7,920	120,899	94
Biological oxygen demand (COD)	66,401	2,447	63,954	96
Total phosphorous (P _{tot})	1,360	297	1,063	78
Total nitrogen (N _{tot})	10,459	3,109	7,350	70

A4. General description of activities

2018 is the 19th fiscal year for SMAT S.p.A, which continues to manage the integrated water services in the plan of Territory Ottimale 3 Torinese ("ATO3 Torinese"), coordinating the Group's activities and defining its strategic goals for a time frame extended until 2033.

The results obtained in the fiscal year align fully with the forecast in the Industrial Plan 3.0 approved by the ordinary Shareholder Meeting on 29/06/2015.

This objective was reached with a constant rate plan since 2016 and applying the new rate scheme foreseen by ARERA as of 1 January 2018, which will be discussed further on, and supporting the important, intense activities correlated to regulating technical quality in compliance with national authorities.

The fiscal year was characterized by significant growth of approximately 13% in respect to the previous fiscal year, reaching a level of over 90 million Euros.

The positive results were backed up financial data, which in addition to guaranteeing respect for contractual agreements, were marked by a reduction in respect to the previous fiscal year of more than 10% in the gross financial debt and gross operating margin ratio.

A5. Service agreement

The management re-unification of Territory 3 Torinese and the subsequent distribution of the service in compliance with the rates and action plan defined by the Territorial Governance entity are exercised by your Company based on the following documents:

- Service agreement for the management of the integrated water service within the plan "Territory Ottimale no. 3 called "Torinese"" signed on October 1st 2004 in execution of resolution no. 173 undertaken by the Conference of Territory 3 Torinese on May 27th 2004;

- Supplementary deed signed on October 2nd 2009 for the assimilation of the periodical review of the 2008-2023 Section Plan, approved by the Territorial Plan Conference resolution no. 349 dated March 27th 2009;
- Agreement signed with ACEA Pinerolese Industriale S.p.A. on December 28th, 2007, upon execution, with validity starting on July 1st 2007, of the provisions of resolution no. 282 passed by the Conference of Section 3 Torinese on June 14th 2007, which confirmed the qualification of SMAT as Sole Provider of the Integrated Water Services for the Territory Ottimale Torinese and of ACEA as safeguarded operational provider in the territory of historical reference, revised by the parties on November 20th 2015;
- ATO3 approved by resolution no. 598 of April 29th 2016 the updated Territorial Plan (2016-2033), after reiterating the choice of an in-house appointment and confirmed SMAT S.p.A. for Territorial management up to December 31st 2033, a term that was considered as consistent to ensure the economic and financial sustainability of the investments required by the Plan;
- On August 8th 2016, SMAT and ATO3 signed the amendment to the convention, which is also aimed at having the Service Convention comply with the Standard Convention approved by AEEGSI (now ARERA) by resolution no. 656/2015/R/IDR dated December 23rd 2015, as submitted to the Shareholder Meeting on October 14th 2016.
- on 6 December 2018 the Shareholder Meeting approved the amendment to the integrative document for the Convention to implement the 2-year rate provisions for the years 2018-2019 and development of the economic plan for the period 2018-2033, approved by ATO 3 with resolution no. 692 on 26/06/2018.

A6. Territorial Plan Update

The Ordinary Shareholder Meeting of SMAT S.p.A. on June 29th, 2015 approved the Company's Business Plan for years 2015 through 2019 with the proposal of ending the mandate in year 2033 and the related Economic and Financial Plan (EFP).

On December 21st 2015, ATO3 Torinese - by resolution 587 - then adopted the Territorial Plan updated to the 2016-2033 period, which reports total investments for Euro 1,534,138,724, transmitting it to the Regional Executive Council and to the Authority for Electricity, Gas and Water Systems (ARERA) for consequent fulfillment.

On April 29th 2016, by resolution no. 598, the Territory 3 Authority approved the updated Territorial Plan (2016 - 2033), which adopted the modifications applied during the Strategic Environmental Assessment.

On 26 June 2018 with resolution no. 692, the Territory Authority no. 3 "Two-Year Updating of rate provisions for the years 2018-2019 and development of the Piano Economic Financial Plan for 2018-2033" approved the Interventions Program setting forth the objectives in the Territorial Plan, as well as those connected to the Technical Authority.

A7. Applied research & development activities

The main areas of application of the applied research projects are:

- drinking and waste water treatments;
- drinking and waste water quality analysis and control systems;
- management and control of the distribution and main sewer system;
- saving and recovering energy and material;
- minimization of waste and environmental impact;
- improvement of the remote control systems.

The numbers relative to the 2018 fiscal year are decisively encouraging: 34 projects were worked on (of which 12 were concluded over the course of the year), divided as follows:

- 5 financed externally (DEMOSOFC, BIOWYSE, PERSEO, AQUALITY, BIOGAS4ENERGY);
- 14 financed by SMAT S.p.A. in collaboration with the University and Polytechnic of Turin (a partnership agreement is active with these schools that contemplates the joint execution of research projects of interest for SMAT S.p.A.),
- 1 self-financed project for covering company costs, in collaboration with HERA S.p.A. and IREN S.p.A.;
- 1 project financed by SMAT S.p.A. in collaboration with CNR;
- 12 carried out completely by the Research Center with the collaboration of the other operative divisions of SMAT S.p.A.;

- 1 project financed by SMAT S.p.A. in collaboration with A2A Ciclo Idrico and the Società Metropolitana Milanese.

In the scope of this final group of projects, more attention was focused on control of pollutant energy sources, in particular those that produce emerging micro-pollutants like micro and nano plastics; these include the project relative to generation of standards for the main polymers present in water, like micro plastics, sampling and extraction of particles for quantification of polymers with relative awareness projects, and the project for creating an "early warning" system for real time control of the quality of the water dispensed in the networks of Turin and Rivoli (pilot municipalities).

In ten years of activity, the SMAT Research Center made it possible to integrate different skills, expanding the areas and potential of research and contributing to both technological innovation and industrial development in the water sector.

A8. International projects

In addition to the activities in the European area developed by SMAT through its Research Center, facilitated by financing from Horizon 2020 and involving the presence of several foreign partners, SMAT has also reinforced its activities abroad, through participation in the EDW Association - European Drinking Water - with headquarters in Brussels.

EDW includes all of the major European water service providers with public shares, counting 65 members, from Austria, Belgium, France, Germany, Greece, Ireland, Italy, Holland, Portugal, United Kingdom (Scotland), Spain and Hungary, providing water services to over 70 million citizens in the European Union.

There are five priorities covered by the EDW "mission", including i) the right to water and sustainable financing, ii) transparent and responsible water services, iii) water safety and quality, iv) efficient management for environmental sustainability, and v) local development of public management of water services, all values that SMAT embodies.

The Association supports a commitment by public water service providers to high quality services, and facilitates exchange of knowledge and best practices through specific Work Groups with skills that cover all aspects of the circular economy to finance, communications and performance.

SMAT was appointed as the coordinator – together with Belgian company Société Wallonne des Eaux – of Work Group WG4 "Innovation", dedicated to research and technological innovation in the water sector, with the objective to develop analysis relative to application of Water Safety Plans, quality inspection of water destined for treatment plants and methodologies for disposing of sludge from urban waste water treatment plants.

A9. SMA Torino S.p.A. Membership in national and European associations

In 2018, SMAT continued developing its presence in national and European associations with the aim of being present on the emerging themes relevant to Integrated Water Service and of increasing its own technical, administrative and legislative knowledge. The most significant memberships are reported hereinafter:

Utilitalia is the National Federation that gathers more than 500 Companies operating in local public services, amongst which the Integrated Water System, with approximately 90,000 operators and a production volume worth approximately 38 billion Euros. In particular, the Utilitalia Members provide the water service to approximately 80% of the national population. Within the largest Italian association, SMAT is represented in the Steering Committee, in the Executive Council and is present in several Commissions (Drinking Water, Waste Water, Regulation, In-house and SME).

Confservizi Piemonte and Valle d'Aosta is the service company confederation that represents the Members that operate in the SPLs of industrial application (Water, Gas, Energy, Environmental Hygiene and TPL). Two members in the Executive Council represent SMAT S.p.A..

Aqua Publica Europea is the European Association of the Public Operators of the Water Sector and includes public companies of Italy, Belgium, France, Greece, Great Britain; Ireland, Portugal, Spain, Switzerland and Hungary serving more than 80 million inhabitants and generating an overall turnover of approximately 10 billion Euros annually. Amongst the most significant companies, it is worth mentioning Eau de Paris, which serves the French capital after a complex return to the public sector. SMAT is represented in the Management Board and in the R&D Group.

Water Alliance - Acque del Piemonte (now "Utility Alliance del Piemonte) is the network of enterprises constituted by 12 Public Water Service Providers with in-house management in Piedmont and serving more than 3.5

million inhabitants (approximately 80% of the overall population of Piedmont) with an overall turnover of more 600 million Euros: Water Alliance – Acque del Piemonte has been joined by the 12 largest Companies of the Region.

SMAT has a member in the Shared Management Committee.

By notary deed dated 21/05/2019, the consortium of companies took on the new name “Utility Alliance del Piemonte”, expanding its operating area, adding the energy sector (Energy Alliance) to water services (Water Alliance), as well as environmental protection (Environmental Alliance), and opening up the possibility to join the network also for public service providers that manage public services and share the same goals as the business network.

EUREAU is the European Association that gathers companies that operate in the drinking water and wastewater treatment sectors, serving over 400 million inhabitants of the European Union.

Its members come from 29 different European Countries (26 EU, 2 EFTA and 1 observer). EurEau promotes shared interests towards the European Institutions and pays special care to the process that generates policies related to the water sector. SMAT is represented in the Drinking Water Commission.

B. COMPOSITION OF THE SMAT GROUP

B1. Parent Company SMA Torino S.p.A.

The Share Capital at the end of fiscal year 2018 is € 345,533,761.65, fully paid and recorded in the Register of Enterprises of Turin in compliance with the law, and it is represented by 5,352,963 ordinary shares with nominal value of € 64.55.

The share register, updated to the date of the balance sheet, shows the Municipality of Turin directly holds 3,231,679 shares and - indirectly - through subsidiary Finanziaria Città of Turin Holding S.r.l., another 169,331 shares, for a total amount of 63.53% of the Share Capital.

The Parent Company holds 492,965 (9.21% of the Capital Stock) own shares that it purchased pursuant to art. 2357 of the Italian Civil Code.

The remaining 1,458,988 shares (which represent 27.26% of the Share Capital, equal to Euro 94,177,675.40) are distributed amongst 293 other Associates, 291 of which are Municipalities.

B2. Own shares and shareholdings in subsidiaries

Over the course of the fiscal year that is closing, the parent company SMAT S.p.A. on 12/12/2018 purchased: 7,169 shares from FCT Holding S.p.A. at the unit value of Euro 77.52 for a total cost of Euro 555,740.88, 9,551 shares from Patrimonio Città di Settimo Torinese S.r.l. at the unit value of Euro 77.52 or a total cost of Euro 740,393.52, and 20,580 shares from CIDIU S.p.A. at the nominal value of Euro 77.52 for a total cost of Euro 1,595,361.60.

Therefore as of 12/31/2018 there was a change in the number of own shares held by the parent company SMAT S.p.A. amounting to 492,965 shares (representing 9.21% of the share capital for a total value of Euro 32,993,340.40) and corresponding to the relative negative Net Equity reserve.

The available reserves in the 2018 balance sheet, after purchasing owned shares, are nearly totally exhausted. Within the SMAT Group, the subsidiaries do not hold any shares in the parent company.

B3. Subsidiaries and associates included in the consolidation area

SUBSIDIARIES:

- RISORSE IDRICHE S.p.A. of Turin

As of December 31st 2018, the Share Capital of Euro 412,768.72 is held at 91.62% by the Parent Company and for the remaining part by Service and design companies that operate at local level.

The company operates primarily in the engineering sector relevant to the Integrated Water Service and was transferred by the Parent Company - effective on January 1st 2005, the branch of activity relevant to the design services with the specific aim of maximizing the systematic nature, quality, organizational efficiency, flexibility and design standardization of the Integrated Water Service with special reference to the territory water infrastructures connected to the Territorial Plan.

Fiscal year 2018 closed with an operating income of Euro 50,491 and a net result of Euro 34,458

The activities of the subsidiary are fully focused to Parent Company SMAT, for which it developed the totality of the appointments for design and works management it received.

Consequently, the Net Capital of the subsidiary at the end of 2018 amounts to Euro 665,854.

Subsidiary Risorse Idriche S.p.A. was consolidated by the Integral Consolidation method starting from fiscal year 2004.

- AIDA AMBIENTE S.r.l. of Pianezza

On August 1st 2008, the Parent Company undersigned 51% of the Share Capital, namely Euro 100,000, of the company AIDA Ambiente S.r.l., established at the same date, since the remaining part was undersigned by the company Intercomunale Difesa Ambiente A.I.D.A. in Pianezza.

Since the Company operates in a systematic, independent way within the group framework with the Parent Company, and is therefore subject to the management and coordination of the latter in compliance with articles 2359 and 2497 of the Civil Code, it is assigned to the management of segments of the integrated water cycle managed by the Parent Company as Sole Territorial Service Provider, as well as the management of liquid waste as defined by the law.

The management evolution of the subsidiary generated an EBIT of Euro 242,346 and a positive Net Result of Euro 173,097 in the fiscal year 2018.

Consequently, the Net Capital of the subsidiary at the end of 2018 amounts to Euro 693,462.

The previously mentioned company was consolidated by the Integral Consolidation method starting from fiscal year 2009.

COMPANIES SUBJECT TO JOINT EQUAL CONTROL (ASSOCIATES)

- **GRUPPO SAP of Turin**

The Shareholder Meeting of Società Azionaria per la Condotta di Acque Potabili (SAP) S.p.A., held on September 24th 2014, approved the merger by incorporation of SAP into its partially held company Sviluppo Idrico S.p.A. (special purpose entity established in a joint form – 50% by SMAT and Iren Acqua and Gas S.p.A. - now IRETI)

The aforementioned merger, which was finalized on January 20th 2015, (with civil effects as from February 1st 2015 and accounting and tax effects starting on January 1st 2015) determined - with last quotation day on January 30th 2015, the *delisting* of SAP. Furthermore, after the merger, the company Sviluppo Idrico S.p.A. changed its corporate name to Acque Potabili S.p.A. (SAP).

As a result of the merger of subsidiary Acque Potabili di Crotona S.r.l. into Parent Company SAP S.p.A. starting from August 1st 2016, the SAP Group consists - as of December 31st 2016 - of the company SAP S.p.A. and Società per l'Acquedotto del Monferrato S.p.A., which is controlled at 100%.

As of the date of the statement of account, SMAT is connected to SAP S.p.A. since it holds a participating interest of 44.92% - equal to that of IRETI S.p.A. - and it holds 3,429,125 shares of the nominal value of Euro 1.00.

The management evolution of the Group to which SAP is the parent company was marked by the completion of activities for divestment of concessions. The 2018 fiscal year closed with the Group showing a consolidated net loss of Euro 12,237. At the end of 2018, the Consolidated Net Equity reached a value of Euro 22,743 thousand (IAS/IFRS criteria).

For the purposes of the Consolidated Financial statement as of December 31st, 2018, the shareholding in Acque Potabili S.p.A. was assessed with the Net Equity method, since there are the premises that define its equal joint control, together with IRETI, and it was classified amongst the shareholdings in associated companies with joint control.

Subsequently, in the consolidated financial statement, the carrying value of the shareholding – in relation to the entry of the same shareholding for a value equal to the pro-rata of the Net Equity, which fell as a result of the losses sustained – amounted to Euro 10,217 thousand. This value is supported by the *impairment test*, conducted by an external expert.

B4. Shareholdings in other companies

- **APS S.p.A. in Liquidation (now in Bankruptcy) in Palermo**

Acque Potabili Siciliane S.p.A. (APS) was established on February 27th 2007 with an initial Share Capital of Euro 5,000,000, and it is held jointly for 9.83% by SMAT S.p.A. and Mediterranea di Acque S.p.A. The same company was established as a result of the tender called for awarding the Integrated Water Service in the territory of the 81 Municipalities of the Province of Palermo (Municipality of Palermo excluded) by ATO 1 of Palermo.

With reference to the aforementioned investment in Acque Potabili Siciliane S.p.A., until October 28th 2013, under an Extraordinary Administration Procedure, now in Bankruptcy, was subjected to complete write-down in the previous fiscal years. Furthermore, already in fiscal year 2010, SMAT S.p.A. set up an ad hoc provision for liabilities and potential charges of Euro 650,000 and - in the financial statement closed as of December 31st 2013 - provided for the full extinction of all the payables accrued up to the end of the Extraordinary Administration Procedure period (October 28th 2013).

Arbitration

On June 25th 2015, an articulated arbitration procedure started on January 7th 2010 submitted by APS and of the shareholders aimed at:

- ascertaining that AATO 1 Palermo had become seriously non-compliant against the AAPS authority;
- sentencing AATO 1 Palermo to full compliance with the Agreement and to restore the economic and financial balance of the concession;
- sentencing AATO 1 Palermo to pay in any event the damages suffered by APS deriving from the ascertained and declared noncompliance.

The final Award of the arbitration between Acque Potabili Siciliane in bankruptcy, Acque Potabili S.p.A. and AATO 1 Palermo was deposited on June 25th 2015.

The Award acknowledges in favor of Acque Potabili Siciliane in bankruptcy and against ATO, the following amounts:

- Euro 18,349,342.00 for the indemnity of the redemption bonuses
- Euro 21,195,041.00 less revenue for non- collection of the set-off amount by AMAP;
- Euro 5,923,000.00 reduced revenue for lower water volumes invoiced and different rates applied;
- Euro 3,212,037.00 greater wholesale water costs;
- Euro 773,000.00 less revenues resulting from arrears.

Furthermore, the arbitration acknowledges some of the emerging damage assumptions affecting the shareholders, highlighting that they can enforce them against Acque Potabili Siciliane in bankruptcy also through claiming in the liabilities, i.e. :

- Euro 6,600,681.00 for the engineering shareholders;
- Euro 1,350,685.00 for the management shareholders (of which Euro 359,548 for SMAT) as related to the know-how project

On the other hand, all the damage assumptions claimed by ATO (for an overall amount of Euro 200,000,000.00) were rejected and the only damage claim regards the Management Agreement fee, for a total amount of Euro 23,815,000.00 Subsequently, the final Award grants damages to ATO for an overall amount of Euro 33,588,786.

On February 9th 2016, AATO 1 Palermo notified the summons to appear in court for an appeal with request of declaration of groundlessness, suspending validity of the Second, Non-Final Award of October 29th 2012, of the Third Non-Final Award of February 24th 2015 and of the Final Award of June 25th 2015, the outcomes of the aforementioned arbitration.

By an order filed on July 28th 2016, the Court of Appeal of Palermo ordered suspension of validity of the final award of June 25th 2015, upon the condition that AATO 1 Palermo provides the appropriate surety policy. The Court of Appeal has also ordered to adjourn the proceedings for the clarification of the conclusions to the hearing of November 7th 2018.

At the hearing on 7 November 2018 all the Parties presented their respective conclusions. Subsequently the Court assigned the terms for the closing arguments, which all the Parties compiled and deposited. The decision is still forthcoming.

- **SII S.p.A. of Vercelli**

19.99% Shareholding in the Integrated Water Service of Biellese and Vercellese S.p.A. of Vercelli (Share Capital Euro 130,000). Furthermore, the Company has shareholdings by Municipalities of Territory 2 Vercellese and - since the object is the management of the water service in the Associated Municipalities, it shows a remarkable synergy potential with other local entrepreneurial businesses in the perspective of being entrusted the management of the Integrated Water Service of said Territory.

- **NOS S.p.A. of Turin**

10 % Shareholding in Nord Ovest Servizi S.p.A. of Turin (Share capital Euro 7,800,000). Furthermore, the Company features a shareholding by Iren Acqua Gas S.p.A. of Genoa, and by other public and private providers. "Nord Ovest Servizi S.p.A." manages the 45% shareholding in Asti Servizi Pubblici S.p.A.", which was purchased as a result of a public call for tender by a joint venture of the same shareholders in Nord Ovest Servizi.

- **Mondo Acqua S.p.A. of Mondovì**

4.92% shareholding in Mondo Acqua S.p.A. of Mondovì (Share Capital Euro 1.1 million), a Company whose equity majority local public capital, namely by the Municipalities of Mondovì, Briglia, Villanova Mondovì, Roccaforte Mondovì and Vicoforte The corporate purpose is the management of the water service in the territory of the shareholding Municipalities.

- **Environment Park S.p.A. of Turin**

3.38% in Environment Park S.p.A. of Turin (Capital Stock Euro 11,407 thousand). Furthermore, Public bodies, Service Companies and financial companies with local value also hold the Company and its purpose is the management of the environmental technological park appointed to research aimed at sustainable development.

- **Galatea S.c.a.r.l. of Alessandria**

0.50% shareholdings in Galatea S.c.a.r.l. Cooperative company of Alessandria (Share Capital Euro 10,000) in divestment process, whose object is the building and management of the wastewater treatment plant of the Municipality of S. Stefano Belbo.

- **Water Alliance – Acque del Piemonte (now Utility Alliance of Piedmont)**

8.33 % shareholding in Water Alliance-Acque del Piemonte, whose registered office is in Turin (Equity fund Euro 60,000 as of the date of the Financial Statements). This network of public enterprises with in-house mandates was established by Notary Deed on July 19th 2016 among 11 water service companies of Piedmont, that have signed an ad hoc "network agreement" aimed at upgrading their competitive capacity through the shared exercise of representing interests in institutional and associative stakeholders, as well as in the decision-making processes.

After the entry of the new "network member" Acea Pinerolese Industriale over the course of fiscal year 2017, the number of water company members became 12.

By notary deed dated 05/21/2019, the consortium of companies took on the new name "Utility Alliance del Piemonte", expanding its operating area, adding the energy sector (Energy Alliance) to water services (Water Alliance), as well as environmental protection (Environmental Alliance), and opening up the possibility to join the network also for public service providers that manage public services and share the same goals as the business network.

C. SMAT GROUP ECONOMIC TREND

<i>Amounts in thousands of Euros</i>	Consolidated Financial Statement 2018	Consolidated Financial Statement 2017	Absolute variation	Variation %	Financial Statement 2018	Financial Statement 2017	Absolute variation	Variation %
Revenues	327,215	330,084	(2,869)	-0.87%	327,180	330,152	(2,972)	-0.90%
Revenues for engineering & construction works	72,243	62,140	10,103	16.26%	72,243	62,140	10,103	16.26%
Other operating revenues	18,399	16,210	2,189	13.50%	15,480	14,044	1,436	10.23%
Total Revenues	417,857	408,434	9,423	2.31%	414,903	406,336	8,567	2.11%
Consumption of raw materials and consumables	(11,994)	(11,354)	(640)	5.64%	(11,885)	(11,247)	(638)	5.67%
Costs for services and leased assets	(109,204)	(108,684)	(520)	0.48%	(109,061)	(109,140)	79	-0.07%
Payroll costs	(62,091)	(62,124)	33	-0.05%	(59,999)	(60,025)	26	-0.04%
Other operating expenses	(22,234)	(21,667)	(567)	2.62%	(21,978)	(21,611)	(367)	1.70%
Costs for engineering & construction works	(69,670)	(58,716)	(10,954)	18.66%	(69,670)	(58,716)	(10,954)	18.66%
Total operating expenses	(275,193)	(262,545)	(12,648)	4.82%	(272,593)	(260,739)	(11,854)	4.55%
Gross operating margin	142,664	145,889	(3,225)	-2.21%	142,310	145,597	(3,287)	-2.26%
Amortization, provisions and write-downs	(68,919)	(58,439)	(10,480)	17.93%	(68,905)	(58,421)	(10,484)	17.95%
Operating income (EBIT)	73,745	87,450	(13,705)	-15.67%	73,405	87,176	(13,771)	-15.80%
Total financial management	263	(1,362)	1,625	-119.31%	343	(1,206)	1,549	-128.44%
Result before taxes	74,008	86,088	(12,080)	-14.03%	73,748	85,970	(12,222)	-14.22%
Taxes	(22,046)	(25,612)	3,566	-13.92%	(21,952)	(25,542)	3,591	-14.06%
Net Profit/(loss) for the year	51,962	60,476	(8,514)	-14.08%	51,796	60,428	(8,631)	-14.28%
Of which								
Belonging to third-party shareholders	90	61						
Belonging to shareholders of the Parent Company	51,874	60,415						

The trend in the item "Revenues" for the 2018 fiscal year of the Parent Company is -0.90%, mainly deriving from contraction in consumption.

The establishment of value for revenues took into consideration the constancy of the rate multiplier in respect to the previous fiscal year with application of resolution ATO 3 no. 704 of 13/11/2018, which foresees application of the new rate scheme in respect of the Integrated Rates Document for Water Services approved by ARERA.

Among other points, this application requires the elimination of the minimum amount, also for uses different from domestic use, and a new calculation method for industrial users authorized for sewer hook-ups.

The increase in "Other operating revenues" of 10.23% is mainly generated by the combined effect of adjustments in the risk fund and decrease in contingent assets and non-existent liabilities.

The "Costs of raw and expendable materials" show a total 5.67% increase from the previous year, in particular resulting from the effect of the costs for materials for maintenance.

The reduction of "Costs for services and leased assets" with respect to the previous year, for a total of 0.07%, was due to the combined effect of the decreased costs for maintenance and works and greater costs of electricity, because, as a result of a decrease in self production there was more uptake from the outside network; and the significant increase in costs for transportation and sludge treatment.

The slight decrease in "Payroll costs" of -0.04%, is mainly due to the effects of adjustments foreseen in the national labor contract, payroll policies and higher costs for subcontracted personnel, for requirements correlated to the implementation of technical quality. Savings derived from transfer of personnel mitigated all of this.

The change of +1.70%, with respect to 2017, under "Other overhead costs" refers mainly to the increase in the Mountain Union Contributions and cost of the integrated water bonus introduced by resolution ARERA

no. 897/2017/R/IDR and resolution ATO no. 697/2018, which replace ISEE incentives attributed in the previous fiscal year to a decrease in revenues. This item also includes a decrease in allocations to the risk fund.

The item Amortization, depreciation and write-downs increased by 17.95%, and reports depreciation in the shares of the partner company SAP of 5.5 million Euros in relation to the result reported at the conclusion of 2018.

The financial proceeds are decreasing in respect to 2017 by 0.27% for lesser dividends and penalty interest, partly mitigated by an increase in interest derived from management of liquid assets.

Financial charges decreased due to registration of depreciation in the amortization, depreciation and write-down item, as explained above, and the lesser interest on mortgages, as well as a simultaneous increase in payable interest on the debenture loan due to a longer time frame.

D. INVESTMENTS BY SMA TORINO S.P.A. AND THE SMAT GROUP

The framework of the technical investments developed by the Parent Company and its subsidiaries in the balance sheet period is reported in the following table:

Investments	
SMAT S.p.A. Investments	
Tangible fixed assets	17,041,762
Intangible fixed assets	1,467,797
Assets under a license agreement	72,220,684
	SMAT S.p.A. Total investments
	90,730,243
Investments by AIDA Ambiente	
Tangible fixed assets	10,750
Intangible fixed assets	466
	AIDA Ambiente Total investments
	11,216
Investments by Risorse Idriche	
Tangible fixed assets	2,892
	Risorse Idriche Total investments
	2,892
	SMAT Group Total investments
	90,744,351

STATE OF PROGRESS OF LARGE INFRASTRUCTURE

The Valle Susa Aqueduct and Waterworks

This will allow the use of drinking water from the Rochemolles Dam through the development of a main channel of over 66 km, which thanks to another 40 km of feed pipelines, will serve 30 Municipalities of the Valley, delivering 16 million m³/year of high-quality drinking water. The waterworks will have three hydro-electrical power stations, which will exploit the altimetric interval between the drinking water plant of Bardonecchia and the Gravera reservoir to generate electricity, thanks to the multi-purpose use of the resources.

In 2018, the main pipeline related to lot II: Bardonecchia - Salbertrand, was completed as well as a significant number of lots for completion and interconnection.

The final phase of the railway interference completion works is currently underway, as the drinking water plant in Bardonecchia.

This project is scheduled to start operations in June 2019.

Soon the supply of hydroelectric energy production stations will be subcontracted.

Reclamation of the Ivrea area

Construction works on the new Plant in San Bernardo di Ivrea (ultra-filtration system) on the right bank of the Dora River are concluded, and today the infrastructure is in the start-up phase; the purification system should be fully operational by the summer of 2019.

The sewer systems connected to the plant (lot I) will be concluded by the summer of 2019, and an extension of the system (lot II) is in the tender phase.

The renovation works on the Plant in Avignone in the Ivrea Municipality (removal of nutrients) on the right side of the Dora River will be concluded by 2019.

Mediano Main Sewer

The enormous work is a main sewer of 3.2 m in diameter made with a depth of 20 m in underground crossing of the entire urban area of Turin from south to north for a total length of over 14 km.

The work is a single main sewer to be built in parallel to the existing one, to be used in alternative to it in cases of malfunction or maintenance. Another of its important functions is to serve as an accumulation tank for first rainwaters to be sent for differentiated treatment. Using the new main sewer, it will be possible to proceed with maintenance of the old canal and avoid the environmental consequences of possible collapse.

In 2018, SMAT drafted the preliminary advanced project, and then published a call for bids to contract the design and execution of the entire job. After assessing all the received offers, the awarding commission identified the assigned group for the tender.

Preliminary administrative procedures are currently underway for signing of the contract. The economic framework for the project is Euro 146,000,000.00 and the time frame for completion is scheduled at approximately 8 years.

The Valle Orco Aqueduct and Waterworks

This is the largest and most extensive of the large infrastructure projects in the industrial plan of SMAT S.p.A. for the next few years.

It will cover the current water deficits in terms of quantity as well as quality in the areas of Ivrea, Caluso and Canavese. The aqueduct will use the water from the reservoirs of Ceresole, Telessio and Angel situated at high altitude in the Parco del Gran Paradiso and today exploited by Iren Energia only for the production of hydroelectric power.

The infrastructure will consist of 140 km of pipeline, sourcing and supplying to serve over 50 municipalities directly and indirectly, from Rivarolo to Cuornè and from Castellamonte to Ivrea amounting to over 120,000 inhabitants. The preliminary design was completed in 2017.

Over the course of 2018, the whole project was submitted to the assessment of EIA (Environmental Impact Assessment) liability at the Ministry of the Environment. On 6 February 2019, the project was deemed as screened for EIA. The call for tenders for drafting of definitive and executive project then commenced. The awarding commission is currently underway in their evaluations of offers.

The economic framework for the project is Euro 186,000,000.00 and the time frame for the works is scheduled in the Intervention Plan over the next 9 years.

Revamping the Po-La Loggia drinking water treatment plant

The modernization activities of the facilities for the drinking water treatment plants Po1, Po2 and Po3 introduced in the Po-La Loggia plant complex at the service of the drinking water network of the City of Turin are continuing. The definitive project was completed over the course of 2018 and approved by ATO in a Board Meeting held in January 2019.

The call for tenders is being prepared for the integrated works.

Moreover, the project for the feeding conduit segment to the Valsalice tank and Castello tank in Moncalieri is in the final phase. The economic framework for the project is Euro 125,000,000.00 and the time frame for the works is scheduled in the Intervention Plan over the next 8 years.

E. FINANCIAL MANAGEMENT OF SMA TORINO S.P.A. AND THE SMAT GROUP

<i>Amounts in thousands of Euros</i>	Consolidated financial statements as of 12/31/2018	Consolidated financial statements as of 12/31/2017	Financial statements as of 12/31/2018	Financial statements as of 12/31/2017
A. Cash and cash equivalents	45	87	44	87
B. Other liquidity	120,299	131,909	119,767	131,500
C. Shares held for negotiation	0	0	0	0
D. Liquidity (A) + (B) + (C)	120,344	131,996	119,811	131,587
E. Current financial credits	0	0	0	0
F. Current bank debt	(2,162)	(2,196)	(2,162)	(2,196)
G. Current part of non-current payables	(48,943)	(48,887)	(48,943)	(48,887)
H. Other current financial	0	0	0	0
I. Current financial payables (F)+(G)+(H)	(51,105)	(51,083)	(51,105)	(51,083)
J. Net current financial payables (D) + (E) + (I)	69,239	80,913	68,706	80,504
K. Non-current bank debts	(148,719)	(197,616)	(148,719)	(197,616)
L. Issued bonds	(133,984)	(133,829)	(133,984)	(133,829)
M. Other non-current debts	0	0	0	0
N. Non-current financial payables (K) + (L) + (M)	(282,703)	(331,445)	(282,703)	(331,445)
O. Net Financial Position (J) + (N)	(213,464)	(250,532)	(213,996)	(250,941)

The current net financial payables of the Parent Company as of December 31st 2018 presents a positive balance of Euro 68,706 thousand, versus Euro 80,504 thousand of the previous fiscal year.

The net financial position as of 12/31/2018 amounted to Euro -213,996 thousand as opposed to Euro -250,941 thousand as of 12/31/2017. This variation is attributed to reimbursement of capital amounts on current loans and a reduction in amortized cost for the debenture loan and mortgages.

The total gross financial debt of the Parent Company as of December 31st 2018 amounts to Euro 333,808 thousand, of which Euro 51,105 thousand due within the next fiscal year, and Euro 282,703 thousand due after the next fiscal year. For more details, see the Supplementary Note of the Parent Company SMAT S.p.A.

The situation of the Group is substantially similar: the net financial position as of December 31st 2018 amounts to Euro -213,464 thousand versus the Euro -250,532 thousand of the previous fiscal year.

The difference in respect to the results of the Parent Company is mainly attributed to the liquidity of the subsidiary AIDA Ambiente.

FINANCIAL RISKS

Comments regarding the financial risks to which the group business is exposed and the hedges provided where needed are presented as follows.

Liquidity risk

The financial activity is, for the most part, managed separately by each company of the Group with autonomous management of the financial flows and current accounts in banks utilized for collection and payment operations, as well as negotiations with the banking system for collection and payment transactions. Starting in fiscal year 2015, a cash-pooling system was activated between the Parent Company and its subsidiary Risorse Idriche S.p.A. to optimize the liquid assets management and the associated financial charges through a greater integration of the control by the Parent Company.

The Parent Company continues to monitor the financial situation to pursue balance, also through optimization of management of circulating capital, maintaining provisions and financial flexibility with the tendency to exclude reliance on short term banking loans, uncovered expenses and financing through hot money.

As related to the Company's financial position, we wish to point out that the investment commitments planned for 2019 are guaranteed by the Cash Flow and by the debenture loan issued on April 13th 2017, thus ensuring the planning of the resources to be applied in the next accounting period.

Guarantees and covenants on the debt

The composition and conditions of the loans are itemized in the Supplementary Note in the comment on the financial liabilities.

As at 12/31/2018, part of the financial position of the Group and of the Company is represented by loan agreements that involve clauses — in line with international procedures — that forbid certain transactions. Amongst them, the commitment to not grant future financiers any burden on any own assets (negative covenant) and the commitment to treat the obligations undertaken on equal terms with all other present and future obligations (equal pace).

Financial covenants are provided, as better detailed in the Notes to the Consolidated Accounts and — in cases of noncompliance with even only one of the aforementioned financial parameters — the lending institutions have the right to terminate the agreement early.

Interest rate risk

The Group is exposed to the risk of fluctuation of the interest rates deriving from the financial indebtedness, and it varies according to its composition as variable or fixed rate. To December 31st, the medium to long term financing terms are 38.5% at variable rate and 61.5% at fixed rate .

The Parent Company adopted the strategy of limiting as much as possible the exposure to the risk of growing interest rates through the preferential access to EU financing released by the European Bank for the investments with guarantee by a national Bank, in order to benefit from both the lower onerousness of the provisions and the lower content of the guarantee, attaining medium to long term financing at variable rates and agreeing on EURIBOR increases that are lower than the market standards.

Furthermore, also in the perspective of limiting the exposure to the risk of rising rates, the Parent Company requested the granting of the loans obtained in the fiscal year being closed at a fixed rate and — in 2017 - it diversified the sources of financing through the issue of a fixed rate debenture loan.

Exchange rate risk

The Group is not exposed to the exchange rate risk and — consequently — as of the date of December 31st, 2018, does not detain any financial derivative instruments to cover the exchange rate risk.

Rating

On June 26th 2015, Standard & Poor's granted the Company the "BBB" rating level ("A+" for SMAT stand-alone). Subsequently, Standard & Poor's released the following Rating Actions:

- On June 28th 2016, it confirmed corporate credit rating "BBB" on the long term and the steady outlook;
- On February 13th 2017, it confirmed corporate credit rating "BBB" on the long term and the steady 'outlook', and it allocated preliminary rating "BBB" to the planned issue of bonds;
- On April 5th 2017, it confirmed corporate credit rating "BBB" on the long term, revising the outlook from steady to negative, only as a function of the revision of the outlook on the Municipality of Turin, and it confirmed preliminary rating "BBB" to the planned issue of bonds;
- On April 11th 2017, it confirmed rating "BBB" for the issue of bonds;
- On November 2nd 2017 it lowered the rating (Corporate Credit Rating and Senior Unsecured) to "BBB-" in relation to the uncertainties in the long-term financial strategy caused by the proposal of the City of Turin to transform the company into a non-profit consortium, confirming the negative outlook and bringing the stand-alone credit profile to "bbb+";
- On 26 November 2018 the rating "BBB-" stood, also for the issue of bonds, therefore placing the Company and the SMAT bond on the last level of the "investment grade" indicator, or the level of reliability considered credit-worthy for institutional investors (minimum valuation limit, below which institutional investors cannot participate).

F. SIGNIFICANT EVENTS DURING FISCAL YEAR 2018

F1 2018 Rates

The rates applied in 2018 were not changed in respect to 2017 and were derived from the 2-year 2018-2019 updating of the Rate Maneuver as described below.

For households in hardship conditions because of the persisting negative economic conditions, the rate reduction is confirmed with the criteria and amounts define by deliberations 897/2017/R/IDR of 12/21/2017.

Furthermore, upon request of the Municipalities, on the grounds of the high social value represented by the municipal and provincial users, which concerns - amongst others - schools, canteens and public fountains, in 2018 a 50% reduction of the Integrated Water Service rate was applied to said users, so that they could continue delivering the aforementioned services and were also involved and encouraged to invest and pay greater attention and deploy resources in favor of the environmental policies, to safeguard of the territory and recover degraded areas. The subsequent lower rate revenues shall not be the subject of adjustment on the water service rate.

Rate update

On December 27th 2017 the ARERA published resolution no. 918/2017/R/IDR issuing the *“Biennial update of rate predisposition of the integrated water service”* that approved the provisions involving the definition of rules and procedures for the biennial update, envisaged by article 8 of resolution 664/2015/R/IDR, for the purposes of redetermining the rates of the integrated water services for the years 2018 and 2019, elaborated in observance of the rate methodology as per Annex A to the same resolution (MTI-2). The rate method envisages an increasingly accentuated integration with the technical quality measures required by the Technical Quality Regulations as per Resolution 917/2017/R/idr.

In fulfillment of the requisites of said resolution, the Government Territorial Plan Entity with the rate proposal approved by resolution on 26 June 2018 no. 692 defined the objectives to pursue (based on the RQTI and the starting level performance) and acquired the proposal of the utilities company regarding the interventions required to achieve those objectives, update the interventions schedule and adopt by its own approval resolution the consequent adaptation of the financial economic plan that, along with the documentation attached thereto, it must send to the Authority for definitive rate approval.

Through resolution ARERA no. 617/2018/R/IDR of 27 November 2018, the Authority approved the rates update 2018-2019, requiring some variations to the aforesaid rate proposal, which were implemented by ATO3 Torinese through resolution no. 720 of 9 April 2019.

Fee reform (TICSI)

On September 28th 2017, the authority published resolution no. 665/2017/R/IDR stating *“approval of the consolidated text on fees for water services (TICSI), laying down the criteria of rate articulation applied to users”*, that defines the criteria for the definition of rate articulation applied to users of the integrated water service (SII) by government agencies in the Territory (or other competent entities) that must be adhered to for the reorganization of the fee structure for the final users.

The authority rationalized and standardized the rate articulation criteria by promoting the installation of differentiated meters that would at least separate the consumption volumes of domestic users from non-domestic users.

By June 30th 2018, the Territorial Plan Entity [Government Area Agency] will be responsible for defining, in particular, the rate articulation applied to resident domestic users by using, for the purpose of determining the variable amount of the aqueduct fee, the per capita criterion. The EGA will also have to define the new fees for the wastewater collection treatment service or non-domestic users authorized to discharge their wastewater and industrial waste into public sewers (industrial fee). Finally, the EGA will have to verify compliance with limitations on the revenues of utility providers, adopting, through its own approval resolution no. 704 of 13 November 2018, the fee structure to be applied to users of the integrated water service starting on January 1st 2018.

Water bonus (TIBSI)

On December 21st 2017, the authority published resolution no. 897/2017/R/IDR declaring “*approval of the consolidated text for the application modalities of social water bonus for the supply of water to economically disadvantaged domestic uses*”.

With the TIBSI, the Authority implemented the system for the compensation of expenses sustained for water supply by domestic users living in economic hardship. Adhering to the provisions already envisaged by the D.P.C.M. October 13th 2016, it introduced the *social water bonus*, articulated according to the standard regulations on National territory.

The Authority safeguarded possible improvement opportunities provided locally by allowing the application of the *supplementary water bonus*.

The admissibility procedure and dispensing of the supplementary water bonus are determined and approved by the Government Territorial Plan Entities having territorial jurisdiction in consideration of various territorial specifics. Direct users are issued the bonus in their water bill through the application of a compensatory rate component, while the indirect users are issued a flat amount according to the procedures autonomously established by the utilities company.

The Authority in Territory ATO3 Torinese maintained improved conditions for users with the introduction of the integrated water bonus, based on resolution ATO3 Torinese of June 26th 2018 no. 692 approving the rate proposal.

The Decree by the President of the Territory Authority no. 3 Torinese on July 23th 2018 no. 169 changed the regulations for application of incentives to access the integrated water service based on the Equivalent Economic Situation (I.S.E.E.) and with resolution no. 697 on November 6th 2018 ratified the Regulations for application of the integrated water bonus.

The social water bonus is paid for a period of 12 months (renewable). The applications for the bonus can be submitted starting on July 1st 2018, effective retroactively from January 1st 2018.

F2. Equalization rate components UI1-UI2-UI3

By resolution 6/2013/R/COM of January 16th 2013, AEEGSI (now ARERA) established the UI1 rate component in favor of populations stricken by the earthquake, applied as an increase to the costs for water, sewers and waste water treatment starting from January 1st 2013 with a two-month payment by the provider to CSEA (Energy and Environmental Services Fund). This component is 0.4 Euro cents for the managed service.

ARERA set up a UI2 rate component, for 0.9 Euro cent/m³ for each aqueduct, sewer and drinking water treatment service applicable starting on January 1st 2018, mainly intended to promote the technical quality.

The charge deriving from the payment of the social water bonus is guaranteed by establishing a new rate component called UI3 for 0.5 Euro cents/m³ of the aqueduct service applicable starting on January 1st 2018, payable by the Local Community.

F3. Fulfillment of the technical quality regulations (RQTI)

By resolution no. 917/2017/R/IDR of December 27th 2017 issuing “Regulation of the technical quality of the integrated water service or each of the single services therein (RQTI)”, defining the minimum levels and goals for technical quality of the integrated water service, by the introduction of prerequisites, general standards, associated with an incentive mechanism with bonuses/penalties, and specific standards, where noncompliance results in payment of penalties.

The new regulation became applicable on January 1st 2018.

The utility companies are required to register all the values underlying the specific and general indicators for each of the ATOs in which they operate, and to keep this data for a period 10 years starting from 1st January of the year subsequent to the year of registration.

The Territorial Governmental Entity, with resolution no. 720 on April 9th 2019, implemented the objectives approved in resolution ARERA no. 617/2018/R/IDR of aforesaid November 27th 2018.

F4. Legislative decree no. 175 of August 19th 2016 (Madia)

In accordance with art. 26 section 5, the decree is not applied to companies with publicly owned shares that have issued financial instruments different from shares, traded on regulated markets.

G. SIGNIFICANT EVENTS OCCURRING AFTER DECEMBER 31ST 2018 AND FORESEEABLE BUSINESS OUTLOOK

G1. Legal comparative study SMAT

Deliberated at the Common Shareholder Meeting on 4 April 2019, the company started a procedure for drafting a comparative study on the legal nature of the company.

The study has the objective of identifying single professionals, associates or groups to compare the two different forms of corporate structure: Company limited by shares with wholly public capital and a Special Consortium Company.

The comparison will compare the characteristics of the current legal form, a company limited by shares with wholly public capital, and the characteristics of a special consortium company with particular reference to efficiency of management, efficiency in control processes on the rational use of resources, opportunities for obtaining the capital necessary for completing, modernizing and maintaining infrastructures, and impact on local and central public financing to support investments.

The comparative study will also take into account compatibility with organizational requirements typical of the provided service, compatibility with current financial frameworks of the company and the commitments deriving from the same, the financial and operative effects caused by possible withdrawal of shareholders, cost containment, guarantees of universal access, guarantees of continuity, equal distribution of costs, environmental protection, guarantees of continuity in current provisioning from the Authorities, adequacy of decision-making processes in respect to the characteristics of management, respect of standards in place to safeguard competition "in" and "for" the market, fiscal effects, issues related to labor and social security, comparison with similar experiences, and responsibility profiles for administrators in the two different corporate formats. The covered topics were grouped into six thematic areas and each participant can present his/her candidacy for the development of a maximum of two thematic areas, as indicated in the procedure.

The study must be delivered within 90 days of assignment.

G2. Inauguration of the Aqueduct in Valle di Susa

The inauguration for the new Aqueduct in Valle di Susa is scheduled for 29 June 2019.

G3. Hiring of personnel

For the implementation of the 2015-2019 Industrial plan, and in particular with the eminent start-up of the Aqueduct serving Valle di Susa, a public selection process was initiated for the hiring of 8 technical operators, 7 of which must be specialized in maintenance on electrical systems, and 1 for conducting and maintaining the water purifying plant, all of whom will be hired on for permanent employment contracts. The new employees will be placed in the facilities in Bardonecchia, Collegno and Turin (Southern area).

G4. The evolution of regulations

Overdue payments (TIMSI)

ARERA subjected the Directives for containment of overdue payments in the integrated water service, with Document dated 16 April 2019 no. 158/2019/R/idr, with the measures that the Authority intends to implement to contain overdue payments in the integrated water service, in particular focused on the conditions for limitation and suspension of supply for domestic users with overdue payments, not from vulnerable groups, on the procedures for management and containment of over payments in the case of condominium users, as well as installment payment plans and communications to users to be adopted in the case of overdue amounts.

Reconciliation (TICO)

ARERA with resolution dated 16 April 2019 no. 142/2019/E/idr established methods for implementation of the protection system for claims and disputes by final users in the water sector, identifying SMAT as one of the service providers required to participate in procedures voluntarily activated by users through the Reconciliation Service as on 1 July 2019.

G5. Acquisition of management of operations in the Rivalta municipality

As of 1 January 2019, SMAT took over management of operations of the aqueduct in the Rivalta Municipality from the company Acquagest Srl, with transfer deed dated 28 December 2018, confirming the same employment numbers.

H. ORGANIZATIONAL MODEL SUPERVISION, ANTI-CORRUPTION AND TRANSPARENCY ENTITY

H1. Supervisory entity

The experience of SMAT S.p.A. in administrative responsibility led to the appointment of the monocratic Supervisory entity as early as 2003 resulting in the adoption of the Organizational Management and Control entity⁷ In 2011, SMAT appointed a joint Supervisory entity, and again allocated the appropriate financial resources for the development of its tasks In the Board of Directors meeting of 02/15/2018, the four members (an external Chairman and three internal members) of the Supervisory entity were confirmed.

The Organizational Model, Supervisory and Anti-Corruption Board for the prevention of administrative breaches constitutes - together with the Code of Ethics and other elements of the corporate governance (Legal Audit, internal auditing, quality certification, BS OHSAS 18001:2007 certification, environmental certification 14001:2015), - an effective tool to raise awareness of all subjects that operate on behalf of SMAT so that - in exercising their activities - they adopt behaviors inspired by the ethics of responsibility and in compliance with the provisions of law .

The Organizational Model and the Supervisory and Anti-Corruption Bodies pursuant to Legislative Decree no. 231/2001 and the Code of Ethics, implemented in compliance with the amendments approved by the Board of Directors meeting of September 29th 2016, were further updated and approved by the Board of Directors on 7 March 2018, to adhere to the legislative and corporate changes, in particular subsequent to the introduction of new crimes (such as illicit brokering⁸ and the modifications to corruption laws in the private sector⁹).

In fiscal year 2018, on the basis of the organization, management and control Model and of the Code of Ethics, the Supervisory entity has developed its activities of monitoring, updating and information. In particular:

- monitoring and implementation of the Model in line with the conformity programs approved by the Board of Directors and drafted for each procedure subject to the "sensitive" processes identified by the Model, in order to prevent crimes that may imply administrative liability of the Company;
- information to all the executives and employees involved in activities subject to the risk of alleged crime, to spread the updating of the new crimes pursuant to Legislative Decree 231/2001, on the purposes and contents of the adopted Organization, Management and Control Model. The information was spread through the company intranet platform by the ad hoc document management software.

In general, all the aforementioned subjects were informed of the disciplinary system adopted in case of violation of the Model, as well as of the communication required in cases of breaches of the Code of Ethics or the internal procedures. A dedicated communication line to Supervisory entity has been reserved. With reference to information to external collaborators and partners, the purchase contracts and orders were adapted with a specific request of acceptance of and commitment to the application of the ethical principles contained in the Code.

The General Part of the Organization a Model is available on company website www.smatorino.it.

H2. Anti-Corruption and Transparency

After the ANAC resolution no. 8 of 06/17/2015 at the meeting held on September 7th 2015, the Board of Directors appointed the Corruption Prevention Officer (CPO) from among the company executives, and deliberated to supplement the composition of the Supervisory entity by introducing the CPO as an additional internal member.

At the Board of Directors meeting held on January 26th 2017, the Anti-Corruption Measures were approved, and the existing Corruption Prevention Preliminary Plan was updated on the Company's institutional website.

On 11/08/2017, with Directive no. 1134, the ANAC issued the new Guidelines for private law companies under public control, in replacement of the previous Guidelines pursuant to Resolution no. 8 of 17/06/2015, confirming the need to appoint a Corruption Prevention Officer also responsible for transparency requirements as per Legislative Decree 33/2013. The last ANAC guidelines also gave a new list of requirements for the publication of data for Transparency.

In 2018, the company implemented the "Transparent Company" section on its corporate website.

⁷In compliance with Legislative Decree 231/2001.

⁸ In effect since 4 November 2016, pursuant to Law 199/2016 that amended art. 25-septies of Legislative Decree 231/01).

⁹ In effect since 14 April 2017 pursuant to Legislative Decree 38/2017 (art. 25-ter of Legislative Decree 231/01).

SMAT S.p.A., by Resolution of the Board of Directors meeting of 02/15/2018, appointed a new Corruption Prevention and Transparency Officer (CPTO).

Mandatory communications and inspections were carried out in relation to the schedule of works prepared based on defined strategic objectives.

A Three-Year Plan for the Prevention of Corruption and Transparency 2018-2020 was prepared and approved by the Board of Directors on 20 December, which was then published on the website and transmitted to all the Directors and Managers of services involved.

Specific training was provided to RPCT and the work group, and general level training was provided in October (4 hours) for top management (directors and managers). The program also includes a specific level training, still to be offered. Training for all other employees is also in the program.

On 20th December, the Board of Directors prepared and approved the “Whistle-blowing Procedure” published on the corporate website and provided to all employees through an internal Service Order.

The absence of any reports to RPCT was noted during the year in question in any form, also through the channels set forth in current regulations and well-distributed through the SMAT corporate website, in addition to the absence of any behaviors quantifiable as corruption.

H3. Privacy - GDPR

In 2018 Smat S.p.A., the data controller, implemented organizational and technical activities to create the so-called “General EU Data Protection Regulation Alignment Project (GDPR) no. 2016/679

To implement the European personal data protection regulation 679/2016 (GDPR), which became definitively applicable directly in all the countries of the EU as of 25 May 2018, by way of resolution by the Board of Directors on 7 March 2018, the Data Controller was appointed.

H4. Certification of the health and safety management system for personnel and the workplace

The company has continued the activities aimed at ensuring compliance with the law, regulations and standards related to safety and health at the workplace.

Therefore, in a perspective of pursuing the continuous improvement in terms of the management of workplace health and safety, on March 5th 2015 the Company obtained voluntary certification BS OHSAS 18001.

The BS OHSAS 18001:2007 certification defines the standards recognized at international level, in order to allow the organization to control its own risks and optimize its performance, defining policies and objectives that involve and motivate the personnel.

In this perspective, the corporate activities will keep being submitted to periodical surveillance to ascertain the effectiveness and implementation of the system.

We hereby certify that - during the fiscal year that is the subject of these Financial Statements - no fatalities or charges due to occupational diseases or mobbing on employees entered on the sole job register have been recorded.

H5. Certification of the environmental management system

SMAT has set up an Environmental Management System shared with the whole personnel for the safeguard of the environment, which - at the end of 2016 - allowed obtaining the UNI EN ISO 14001:2015 certification.

This is a voluntary certification, aimed at ensuring the safeguard of the environment, preventing any pollution, reducing the amounts of waste, energy and material consumption, the environmental impact deriving from the company activities or the activities the company may influence.

H6. Certification of the quality management system

SMAT S.p.A. has a Quality Management System in place, which is shared among all personnel, allowing it to update its UNI EN ISO 9001:2015 certification.

H7. List of SMAT Group branches

Parent Company SMAT S.p.A. and the other subsidiaries exert their own activities in the respective registered offices and in local reference operations, no group branches ex-art. 2299 of the Italian Civil Code are entered.

I. RELATIONSHIPS WITH RELATED PARTIES

As related to the relations developed with the related parties, as defined in art. 2428, paragraph 2, no. 2 of the Italian Civil Code, we highlight herein under the main operations Parent Company SMAT S.p.A. has developed with them.

11. Relations with the City of Turin

In relation to the City of Turin, regarding the shares held (directly or indirectly), in the amount of 63.53%, as of the date of this Financial Statement, the following relations exist, as a result of transactions operated in standard market conditions:

	Receivables	Payables	Expenses	Revenues
CITY OF TURIN	3,655,770	1,249,214	1,759,413	4,074,383

As related to the composition of the receivables from the City of Turin, the most significant items concern the supply of the Integrated Water Service (invoices issued or to be issued for approximately Euro 3.139 million), other activities and services (invoices to be issued for approximately 517 thousand Euros).

As related to the composition of the payables to the City of Turin, the item consists of the 2018 installments of the Local Authority Fees deliberated by Territory Authority no. 3 Torinese for the fiscal year that is being closed and for a total amount of approximately Euro 694 thousand Euros and based on municipal tax assessment on property for the years 2005-2010 after the rulings by the Cassation Court no. 3112 and 6842 issued in the early months of the 2019 fiscal year for a total of approximately 555 thousand Euros.

The evolution of the amounts receivable from and payable to the City of Turin is a consequence of the reciprocal payments made at the stipulated deadlines.

The revenues are reported at the net amount of Euro 3.320 thousand in reference to the 50% rate reduction established for public use users applied in 2018.

12. Relations with the subsidiaries and associates

As regards the companies of the Group which are to be considered as subsidiaries and/or associates in compliance with article 2359 of the Civil Code, as of the date of these Financial Statements there were the following relations, deriving from transactions operated in standard market conditions or by specific or general agreements to regulate the exchange of services between the parties:

	Receivables	Debts	Expenses	Revenues
RISORSE IDRICHE S.p.A.	4,319,792	6,386,829	3,107,731	178,318
AIDA AMBIENTE S.r.l.	120,064	586,193	1,339,226	135,413
SAP S.p.A.	52,323	15,591	0	64,023
ACQUEDOTTO DEL MONFERRATO S.p.A.	5,002	0	0	5,002
Total	4,497,181	6,988,613	4,446,957	382,756

CONSOLIDATED FINANCIAL STATEMENT OF THE SMAT GROUP

IAS/IFRS FRAMEWORKS
SUPPLMENTARY NOTE



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Euro	Remarks	12/31/2018	12/31/2017
ASSETS			
Non-current assets			
Tangible fixed assets	1	169,230,988	169,042,271
Goodwill	2	5,928,005	5,928,005
Other intangible assets	3	3,567,347	3,584,556
Concessions	4	611,111,310	579,570,400
Investments	5	13,675,862	19,173,212
Deferred tax assets	6	15,374,579	15,237,678
Non-current financial assets	7	985,669	907,727
Other non-current assets		0	0
Total non-current assets		819,873,760	793,443,849
Current assets			
Inventory	8	7,601,363	7,415,403
Trade and other receivables	9	243,575,583	267,649,242
Current tax assets	10	6,424,908	8,195,269
Current financial assets		0	0
Other current assets	11	3,922,094	7,106,726
Cash and cash equivalents	12	120,344,247	131,996,512
Total current assets		381,868,195	422,363,152
Assets intended for sale		0	0
TOTAL ASSETS		1,201,741,955	1,215,807,001

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Euro	Remarks	12/31/2018	12/31/2017
NET EQUITY AND LIABILITIES			
NET EQUITY			
Share capital		345,533,762	345,533,762
Legal reserve		18,319,415	15,298,020
Reserve restricted for PEF implementation		199,509,171	153,583,962
FTA reserve		(2.845.993)	(2.845.993)
Other reserves and retained earnings		3,892,987	6,207,846
Operating profit due to Parent Company shareholders		51,873,573	60,415,092
TOTAL NET EQUITY OF THE PARENT COMPANY		616,282,915	578,192,689
Capital and reserves attributable to non-controlling interests		271,810	266,760
Profit for the year attributable to non-controlling interests		89,893	60,871
TOTAL NET EQUITY		361,703	327,631
TOTAL NET EQUITY	13	616,644,618	578,520,320
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	14	282,702,625	331,444,828
Provisions for employee benefits	15	16,947,465	18,627,033
Provisions for risks	16	23,034,270	26,729,459
Deferred tax liabilities	17	337,834	341,798
Other non-current liabilities	18	50,620,545	52,303,449
Total non-current liabilities		373,642,739	429,446,567
Current liabilities			
Current financial liabilities	14	51,105,397	51,083,139
Commercial payables	19	83,912,497	79,172,910
Current tax liabilities	20	3,856,040	8,012,750
Other current liabilities	21	72,580,664	69,571,315
Other current financial liabilities		0	0
Total current liabilities		211,454,598	207,840,114
Liabilities destined for sale		0	0
TOTAL LIABILITIES		585,097,337	637,286,681
TOTAL NET EQUITY AND LIABILITIES		1,201,741,955	1,215,807,001

CONSOLIDATED INCOME STATEMENT

	Remarks	2018	2017
REVENUES			
Revenues	22	327,214,741	330,084,397
Revenues for planning and construction activities	23	72,243,129	62,140,413
Other revenues	24	18,398,754	16,208,920
Total revenues		417,856,624	408,433,730
COSTS			
Consumption of raw materials and consumables	25	11,993,686	11,354,150
Costs for leased assets and services	26	109,203,589	108,683,944
Payroll costs	27	62,090,930	62,123,958
Other operating expenses	28	22,233,509	21,666,856
Costs for planning and construction activities	29	69,670,035	58,716,004
Total operating expenses		275,191,749	262,544,912
Gross operating margin		142,664,875	145,888,818
Amortization, provisions and write-downs	30	(68.918.791)	(58.438.792)
Operating Income (EBIT)		73,746,084	87,450,026
Financial income	31	5,538,219	5,437,544
Financial expense	32	(5.275.050)	(6.799.437)
Total financial management		263,169	(1.361.893)
Result before taxes		74,009,253	86,088,133
Income Taxes	33	(22.045.787)	(25.612.170)
PROFIT (LOSS) FOR THE YEAR		51,963,466	60,475,963
Of which			
belonging to non-controlling interests		89,893	60,871
Belonging of the parent company		51,873,573	60,415,092

COMPREHENSIVE CONSOLIDATED INCOME STATEMENT

Remarks	2018	2017
A. Profit for the year	51,963,466	60,475,963
Actuarial profit (loss) on employee benefits (Employee Severance Indemnity)	569,678	(18,706)
Tax effect on Profit /(loss) that will not be subsequently reclassified in the Income statement	0	0
B. Profits/(losses) entered directly under Net Equity and that will later be reclassified in the Income statement	569,678	(18,706)
Share of other profits/(losses) by the Enterprises assessed by the Net Equity method	0	0
Tax effect on Profit /(loss) which will subsequently reclassified on the Income statement when given conditions are met	0	0
C. Profits/(losses) entered directly under Net Equity and that will not later be reclassified in the Financial Statement	0	0
D. Total profit for the year (A + B + C)	52,533,144	60,457,257
Of which		
belonging to non-controlling interests	91,747	65,516
Belonging to the parent company	52,441,397	60,391,741

CONSOLIDATED CASH FLOW STATEMENT

Euro	Remarks	2018	2017
A. Financial flows of operational activity		132,524,597	81,308,485
Profit (loss) for the year		51,963,466	60,475,963
Adjustments for non-monetary costs and revenues			
Intangible depreciation		1,485,473	1,338,636
Tangible depreciation		16,119,466	16,158,822
Depreciation for concessions		40,177,233	36,287,725
Increase/(Decrease) of the provisions for contingencies and charges		(3.695.189)	1,810,095
Increase/(Decrease)in provisions for employee benefits		(1.679.568)	(568.213)
Advanced/deferred tax change		(140.865)	(673.365)
Change for other non-current liabilities		(1.760.846)	(416.964)
Net Equity reserve change			
Conversion difference		0	0
Actuarial profit and loss		(1.854)	0
Other movements		(2.377.637)	(5.378.503)
Variation in the net working capital			
(Increase)/Diminution of the commercial receivables		24,073,659	(26.825.823)
(Increase) /diminution of other assets		4,954,993	1,320,846
Stock (Increase)/decrease		(185.960)	(1.028.445)
(Increase)/Decrease of the commercial payables		4,739,587	(1.189.222)
(Increase) /diminution of other liabilities		(1.147.361)	(3.067)
B. Financial flow of investment assets		(83.997.240)	(78.768.818)
Disinvestment /(investment) of intangible assets		(1.468.264)	(1.842.305)
Disinvestment /(investment) of tangible assets		(16.308.183)	(16.491.739)
Disinvestment /(investments) of assets under a license agreement		(71.718.143)	(62.194.896)
Variation in shares		5,497,350	1,760,122
Variation in consolidation area			
C. Financial flows of financial assets		(60.179.622)	74,918,945
Cash from the issue of share capital		0	0
(Purchase)/Release of shares		0	0
Change of the financial debt		(48.686.440)	85,050,158
Other changes in financial liabilities		(33.505)	1,541,937
(Dividends paid)		(11.459.677)	(11.673.150)
D. Net flows (A ± B ± C)		(11.652.265)	77,458,612
E. Liquidity at the beginning of period		131,996,512	54,537,900
F. Liquidity at the end of period (D ± E)		120,344,247	131,996,512

CONSOLIDATED CHANGES IN NET EQUITY

(Units in Euro)	12/31/2016	Allocation of result	Distribution of Profit	Other movements	Profit for the year	12/31/2017
Share capital	345,533,762			0		345,533,762
Legal reserve	12,220,577	3,077,443				15,298,020
Reserve restricted for PEF implementation	106,806,840	46,777,122				153,583,962
FTA reserve	(2,845,993)				0	(2,845,993)
Other reserves and retained earnings:						
• <i>Optional reserve</i>	34,342,562				0	34,342,562
• <i>Consolidation reserve</i>	5,026,588				0	5,026,588
• <i>Severance actualization reserve</i>	283,460			4,645	(23,351)	264,754
• <i>Reserve for purchase of treasury shares</i>	(24,908,904)			(5,192,940)		(30,101,844)
• <i>Reserve for rounding up units</i>	(3)			(4)		(7)
• <i>Retained earnings</i>	(3,992,288)	12,341,231	(11,673,150)			(3,324,207)
Total other reserves and retained earnings	10,751,415	12,341,231	(11,673,150)	(5,188,299)	(23,351)	6,207,846
Profit for the year	62,195,796	(62,195,796)			60,415,092	60,415,092
TOTAL NET EQUITY OF THE GROUP	534,662,397	0	(11,673,150)	(5,188,299)	60,391,741	578,192,689
Capital and reserve of non-controlling interests	242,518	191,095		(171,498)	4,645	266,760
Non-controlling interests	191,095	(191,095)			60,871	60,871
TOTAL EQUITY OF NON-CONTROLLING PARTIES	433,613	0	0	(171,498)	65,516	327,631
TOTAL CONSOLIDATED NET EQUITY	535,096,010	0	(11,673,150)	(5,359,797)	60,457,257	578,520,320

(Units in Euro)	12/31/2017	Allocation of result	Distribution of Profit	Other movements	Profit for the year	12/31/2018
Share capital	345,533,762			0		345,533,762
Legal reserve	15,298,020	3,021,395				18,319,415
Reserve restricted for PEF implementation	153,583,962	45,925,209				199,509,171
FTA reserve	(2,845,993)				0	(2,845,993)
Other reserves and retained earnings:						
• <i>Optional reserve</i>	34,342,562				0	34,342,562
• <i>Consolidation reserve</i>	5,026,588				0	5,026,588
• <i>Severance actualization reserve</i>	264,754			1,854	567,824	834,432
• <i>Reserve for purchase of treasury shares</i>	(30,101,844)			(2,891,496)		(32,993,340)
• <i>Reserve for rounding up units</i>	(7)			2		(5)
• <i>Retained earnings</i>	(3,324,207)	11,468,488	(11,459,677)	(1,854)		(3,317,250)
Total other reserves and retained earnings	6,207,846	11,468,488	(11,459,677)	(2,891,494)	567,824	3,892,987
Profit for the year	60,415,092	(60,415,092)			51,873,573	51,873,573
TOTAL NET EQUITY OF THE GROUP	578,192,689	0	(11,459,677)	(2,891,494)	52,441,397	616,282,915
Capital and reserve of non-controlling interests	266,760	60,871		(57,675)	1,854	271,810
Non-controlling interests	60,871	(60,871)			89,893	89,893
TOTAL EQUITY OF NON-CONTROLLING PARTIES	327,631	0	0	(57,675)	91,747	361,703
TOTAL CONSOLIDATED NET EQUITY	578,520,320	0	(11,459,677)	(2,949,169)	52,533,144	616,644,618

SMAT GROUP SUPPLEMENTARY NOTE

The main criteria and accounting principles applied in setting and drafting the consolidated balance sheet of the Group (the Consolidated Income Statement) are reported as follows: These accounting principles have been applied consistently for all the fiscal years reported in this document.

Principles for preparation of the balance sheet

European (CE) Regulations no. 1606/2002 of July 19th 2002 introduced the obligation, starting from fiscal year 2005, to apply the International Financial Reporting Standards ("IFRS"), as amended by the International Accounting Standards Board ("IASB"), and adopted by the European Union ("IFRS" or "International Accounting Principles") for the drafting of balance sheets of companies holding capital and/or debt shares quoted in one of the markets regulated by the European Community. On April 13th 2017, SMAT issued a bond loan for a rated amount of Euro 135 million subscribed by institutional investors and it provided for quotation on the Irish Stock Exchange. In compliance with the aforementioned legislative provisions, SMAT must draft the consolidated and fiscal year income Statement in compliance with the IFRS starting from the fiscal year closed on December 31st 2016.

The date of transition to IFRS (The "Transition Date") was therefore identified as January 1st 2015. The Company had already drawn up the consolidated financial statements for the fiscal years closed at December 31st 2015 and 2014 in compliance with the accounting principles issued by Association of Chartered Accountants, as amended by the Italian Accounting entity.

This statement of account is therefore drafted in compliance with the IFRS in force on the date of its approval. IFRS means the new International Financial Reporting Standards, the reviewed international accounting principles ("IAS"), all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC"), certified and adopted by the European Union.

The Financial Statements schedules and the accounting information reported in the Explanatory Notes comply with the book entries they directly derive from. The IFRS have been applied consistently for all the fiscal years reported in this document.

The statement of account prospectus, as provided for in art. 2423-ter of the Civil Code reports the previous year values for comparison. Where required, the data of the previous fiscal year have been suitably adapted in order to ensure the appropriate comparison.

This balance sheet has been set in the perspective of corporate continuity and based on the contractual criteria of the historical cost, with the exception of some book entries, which are reported at fair value, in compliance with the provisions contained in the International Accounting Principles.

Structure and contents of the balance sheet

The diagram used for the profit and loss account is in scale with the different items analyzed according to their type. We believe this presentation, which is aligned with international practices, is the one that best represents the company results. The comprehensive Financial Statement is presented, as allowed by the revised IAS 1, in a document separate from net equity, and distinguishes between the components that can be reclassified in the Financial Statement and those that cannot. The other components of the comprehensive Financial Statement are highlighted separately, also in the schedule of the net equity variations. The diagram of the equity and financial positions highlights the separation between the current and non-current assets and liabilities. The financial reporting is drafted according to the indirect method, as allowed by IAS7.

The general principle adopted in drawing up this balance sheet is cost, with the exception of the financial assets and liabilities (including the derivative instruments), which are assessed at fair value. The preparation of the balance sheet required the use of estimates by the management; the main areas characterized by particularly significant assessments and assumptions, together with those that have remarkable effects on the situations presented, are reported in section "Use of Estimates". All the accounting prospects of the equity and financial status and of the Financial Statement are expressed in single Euros, whilst the data entered in the explanatory comments are expressed in thousand Euros, unless otherwise indicated.

Consolidation criteria

The principles adopted for processing the consolidated financial statement are presented as follows.

1. CONSOLIDATION AREA AND REFERENCE DATA

This consolidated financial statement includes - besides the Financial Statements of Parent Company SMAT S.p.A. - the statements of account of its Subsidiaries (these statements of accounts, approved by the respective Boards of Directors, have been amended/reclassified as appropriate in order to make them homogeneous to the financial statement drafting standards of the Parent Company and consistent to the drafting standards of the international accounting principles (IAS/IFRS). The control is in force when the parent company has the power to manage the activities relevant to the company and is exposed to the variability of the results. The statements of account are included in the consolidated financial statement starting from the date the control is taken until this control ceases to exist.

The joint control agreements can be classified as (i) "shareholding in joint ventures" if the Group has rights on the net assets of the agreement such as - for instance - in case of companies with their own legal personality, or (ii) "joint control activities" the Group has rights on the assets and obligations on the liabilities relevant to the agreements. The classification of the agreements is based upon the analysis of the same rights and obligations.

The companies on which a "remarkable influence" is exerted have been assessed with the "net equity method"

In addition to the Parent Company SMAT S.p.A., the consolidation area includes:

- the company **Risorse Idriche S.p.A.**, where the Parent Company has direct control (91.62%) in compliance with article 2359 of the Civil Code;
- the company **AIDA Ambiente S.r.l.**, where the Parent Company has direct control (51.00%) in compliance with article 2359 of the Civil Code;

There are no discrepancies in the closing dates of the Financial Statements of the enterprises the Group consists of.

The participating interest in **SAP S.p.A.**, where the Parent Company exerts joint control together with company IRETI S.p.A, respectively at 44.92% , has been assessed with the Net Equity method. Through Parent Company SAP S.p.A., SMAT S.p.A. has indirect joint control on company Acquedotto Monferrato S.p.A.

2. CONSOLIDATION PRINCIPLES

The criteria adopted by the Group for the definition of the consolidation area and of the relevant consolidation principles are presented as follows.

Integral consolidation

Consolidation by the "integral method" essentially consists of taking up the assets and liabilities, costs and revenues of the consolidated companies, irrespectively on the size of the shareholding held and allocating the Third-party shareholders - in a dedicated item of the Net Equity called "Equity and reserve of third parties" - the share of profit and reserves of their competence.

Companies Risorse Idriche S.p.A. and AIDA Ambiente S.r.l. are consolidated through the full integration system. The asset and liability elements, as well as the revenues and charges of the aforementioned companies are taken in full (line by line).

Elimination is applied to:

- a) shareholdings in subsidiaries and their corresponding fractions of Net Equity held by the Parent Company, allocating the different asset and liability elements the current value at the date control is acquired; any difference, if positive, is reported, if there are the conditions for it, in the "Goodwill" asset item and reported in the Financial Statement, and if negative, it is reported in the financial statement;
- b) receivables and payables between companies included in the consolidation area;
- c) profits and charges relevant to operations performed between said companies,
- d) profits and charges resulting from operations performed between these companies and relevant to values included in the equity;
- e) charge off of the dividends cashed by consolidated companies.

In particular, the consolidation procedure required the elimination of the charging values of the shareholdings and the corresponding shares of Net Equity in the subsidiaries. This elimination was implemented in the accounting values referred to the date where the subsidiaries were included for the first time in the consolidation (for Risorse Idriche S.p.A. at December 31st 2004, for AIDA Ambiente S.r.l. on December 31st 2009).

In past fiscal years, this elimination resulted in:

- **Risorse Idriche S.p.A.** a greater value of the shareholding in 2004, which was computed into the consolidated financial statement - to the Net Equity - in an item denominated "Consolidation reserve" and amended in 2007, after the increase in the control percentage (from 83.67% to 91.62%) with computing to the consolidated financial statement amongst the intangible assets in an item denominated "Consolidation Difference";
- **AIDA Ambiente S.r.l. no difference.**

The greater/lower price paid from the corresponding fraction of payment, deriving from the acquisition of further company shares is computed as reduction/increment of the net equity.

The acquisitions of controlling shareholding that occur within the same Group (i.e. "business combinations under common control") are calculated in value continuity .

Elimination of the intra-group profits/losses

For the purposes of the consolidated financial statement, the economic result of the Group is only generated by the transactions relevant to third parties.

The profits/losses deriving from intra-group transactions - where existing - are eliminated within the consolidation process, sharing the adjustment proportionally between the share relevant to the Group and the one related to Third Parties, taking also into account the tax effects.

Evaluation of the shareholding through the Net Equity method

The shareholding is initially detected at cost and the accounting value is increased or reduced to identify the share belonging the controlling company, of the profits and losses of the subsidiary that are achieved after the date of acquisition. Any goodwill included in the value of the participating interest is subject to "*impairment test*". The cost of acquisition is allocated to the pro-rate of the assets and liabilities *fair value*, as they can be identified, of the related companies or *joint ventures*, and the difference to goodwill. The share of the fiscal year of the subsidiary of competence of the controlling company is identified in the profit and loss account of the latter, with the exception of the effects relevant to other variations in the subsidiary net equity, different from the operations with the shareholders, which are directly reflected in the comprehensive Financial Statement of the Group. In case of any losses exceeding the loading value of the shareholding, the part in excess is identified in a dedicated passive fund insofar the parent company is committed to comply with the legal obligations or in those that are implicit to the subsidiary or in any case to cover its losses.

The dividends received by a subsidiary reduce the accounting value of the shareholding.

Valuation criteria

Goodwill and other intangible fixed assets

The identifiable controllable intangible assets are identified in the accounting; their cost can be reliably determined provided that these activities generate economic benefits in the future. Such assets are identified at cost value in compliance with the criteria indicated for the tangible assets and - if their useful lifespan is defined - they are depreciated throughout the period of the estimated lifespan. The depreciation starts at the moment the asset is ready to be used or - in any case - it starts producing economic benefits for the enterprise. The current assets include the costs relevant to intangible assets for which the economic utilization process as not started yet.

The intangible assets with defined useful lifespan are systematically depreciated starting from when the asset is available for use throughout the period of expected usefulness. The goodwill and the other activities whose useful lifespan is not defined are not subject to systematic depreciation, but they are subject to yearly verifications of recoverability (the so-called impairment test) conducted at the level of the individual Cash Generating Unit (CGU) or groups of CGU's whose indefinite useful lifespan assets can be reasonably allocated. The test is described hereinafter in "Reduction of the value of the assets". Any write-down ascribed to goodwill cannot be subject to subsequent return to default values.

The goodwill acquired against payment during the release of branches SAC (January 1st 2014) and SAP (July 1st 2015) is not depreciated, but it is submitted every year to the so-called impairment test.

The intangible assets identified as a result of an aggregation of companies are reported separately from the goodwill, if their fair value is reliably determined.

The profits or losses that derive from the alienation of an intangible asset are identified as the difference between the dismissal value and the loading value of the asset, and identified in the Financial Statement at the moment the risks and benefits connected to the ownership of said asset are transferred to the buyer.

Assets under concession

The concessions mainly consist of rights relevant to networks, systems and other equipment relevant to the Integrated Water Service given under license to SMAT Spa, which are functional to the management of this service. These licenses are classified in a specifically allocated item according to the interpretation IFRIC 12 – Service Concession Arrangements. As far as depreciation is concerned, IFRIC provides that the latter is calculated on the basis of what is stated in the agreement and - in particular - in a constant measure for the shorter period of time between the technical and economic lift of the assets given in license and the duration of the license itself, until the takeover value provided for in the license agreement is achieved.

In particular, the value of the right of use of the public assets of the waterworks of the City of Turin and of C.I.A.C.T., which are defined in compliance with the expert appraisal of transfer, have been reported in this Financial Statements on the basis of the duration of the relevant agreement deed extended by Territory Authority Torinese n. 3. The depreciation of the improvements made to aforesaid assets after the transfer date have been determined based on the estimated economic and technical useful lifespan. The depreciation on the improvements made to the well systems entrusted in direct management to the Company were determined with reference to the estimated economic and technical useful lifespan of the improvements made.

The extension of the waterworks system of the City of Turin, received under a license agreement and for which it was established in the previous license contract by the City of Turin to AAM Torino S.p.A. (now liquidated) to be devolved free of charge at the end of the license was depreciated on the basis of the estimated economic and technical lifespan of said extension.

The extension includes the rights on networks, systems and other equipment relevant to the Integrated Water Service and connected to services managed by SMAT S.p.A. The implementation of IFRIC 12 required the application of IAS 11 to the same infrastructures, since, if the licensee builds or upgrades an infrastructure it does not control, the relevant services of building and upgrading developed on behalf of the licensor are considered as actual activities developed against the purchase order. Since most of the activities are sub-contracted and the margin of benefit acknowledged in the remuneration of the service rate cannot be identified separately on the building activities that were developed in-house, these infrastructures are identified based on actually sustained costs.

Tangible fixed assets

The tangible assets are identified at the purchase or production cost including the accessory charges, or at the value based on appraisals of the company equity, in case of acquisitions of companies, net to the relevant depreciation fund and to any losses of value. The production cost included the direct and indirect costs for the share that can be reasonably ascribed to the assets (e.g.: personnel costs, transport, customs duties, expenses for the preparation of the area of installation, testing costs, notary and land register expenses) The cost includes any professional fees and - for some goods, the financial charges capitalized up to the coming into service of the good. The cost includes any cost for site reclaiming, on which the tangible asset lays, complies with the provisions of IAS 37.

The expenses for ordinary maintenance are fully charged to the Financial Statement. The costs for improvements, modernization and transformation of an incremental nature are attributed to the capital assets.

The accounting value of tangible assets is submitted to verification to identify any losses of value, in particular when events or changes of condition identify that the charged value cannot be recovered.

The tangible assets are reported gross to the system revenue contribution which are identified in the profit and loss account throughout the period of time required to related them to the relevant costs; they are represented in the equity and financial status reporting as differed revenue.

The depreciation starts when the assets enter the production cycle and - for new acquisitions – it is calculated at 50% of the full rate, since it is considered as representative of the actual use of the goods. The current assets include the costs relevant to intangible assets whose economic utilization process has not started yet. The tangible assets are systematically depreciated every fiscal year based on economic and technical rates that

are considered as representative of the residual potential of use of the assets. Tables with the depreciation rates taken into account for the depreciation of the assets are reported herein.

As required by IAS 16, the estimated useful lifespan of the tangible assets are reviewed every fiscal year, in order to assess the need of revision. If it is ascertained that the estimated useful lifespans do not appropriately represent the future expected benefits, the relevant depreciation plans must be redefined based on the new assumptions. These changes are reported in a prospectus to the Financial Statement.

During the concluded fiscal year, no change was reported in the depreciation plans for any of the categories of tangible assets.

The land is not depreciated.

The profits or losses that derive from the alienation or dismissals of a tangible asset are identified as the difference between the sale revenue and the net accounting value of the asset and they are identified in the Financial Statement at the moment the buyer is transferred the risks and benefits connected to the ownership of said asset.

Shareholdings

Shares in partner companies are accounted using the net equity method, starting from the date when significant impact begins and up to the moment when this significant impact ceases..

Shares in other companies are valued at fair value in accordance with the other components in the comprehensive financial statement. Shares held exclusively for the purpose of subsequent alienation are excluded from this approach, and their fair value is inserted in the profits (losses) of the fiscal year. The risk deriving from any losses exceeding accounting value of the shareholding is identified in a dedicated fund insofar as the parent company is committed to comply with the legal obligations or those that are implicit to the subsidiary, or in any case to cover its losses.

To ensure the correctness of the recorded value, the shares in partner companies and other companies were subjected to the impairment test. Operationally, for the purpose of this test, the accounted value of reference for these shares was determined and then compared with the recoverable value identified through valuation performed by an external independent expert.

In case the share of competence of the Company of the losses in the participating interest exceeds the accounting value of the participating interest, the value of the participating interest is zeroed and the share of any further losses is identified as a liability fund in case the Company is obliged to respond to it.

The dividends received are recognized in the Financial Statement once the right to receive the relevant payment is established. In case the related company has distributed dividends, also the following aspects are considered as potential indicators of loss of value:

- The reported value of the participating interest exceeds the accounting value in the consolidated balance sheet of the net assets of the related company, including the relevant goodwill;
- The dividend exceeds the overall value of the profit and loss account in the period of time the dividend refers to.

The financial assets the Company intends to and can keep until the expiry are reported at the cost represented by the fair value of the initial amount given in exchange, incremented by the transaction cost. As a result of the initial identification, the financial assets are assessed through the criteria of depreciated cost, using the method of the actual interest rate.

Non-current financial assets

This category includes those assets that are not represented by derivative instruments and are not quoted in an active market, of which fixed or identifiable payments are expected. These assets are assessed at the depreciated cost based on the actual interest rate method. If there is objective evidence of the value loss indicators, the value of the assets is reduced in such a measure to result equal to the discounted value of the flows that can be obtained in the future: the losses of value determined through the impairment test are reported in the Financial Statement. If the reasons for the previous write-downs subsequently no longer exist, the value of the assets is restored until it reaches the value that would derive from the application of the depreciated cost if the impairment had not been performed. These assets are classified as current assets, except the shares whose expiry is greater than 12 months, which are included among the non-current assets.

Inventory

Inventory is assessed at the lowest value between the average weighed cost for the movement and the corresponding market value, in order to reflect any conditions of technical obsolescence or low turnover, as reported in the dedicated Write-down Fund taken to direct reduction of the inventory to return the cost to the expected obtainable value.

Receivables

The credits are initially computed at "fair value" and - then - at the depreciated cost, where significant, using the actual interest rate, reduced for losses of value. The losses of value of the credits are reported in the Financial Statement when objective evidence is detected that the Group shall not be able to recover this credit. The amount of the write-down is measured as the difference between the accounting value and the current value of the expected future financial flows. The value of the credits is reported in the financial statement net of the credit write-down fund.

Financial assets and other current assets

They are initially reported at the "fair value" (including the costs incurred for the acquisition/emission) at the date of the transaction. Then, they are assessed at the depreciated cost, using the actual interest rate criteria, wherever it is significant and assimilating any losses of value into the Financial Statement.

Industry information

Information relevant to business sectors was arranged in compliance with the provisions of IFRS 8 "Operational sectors", which include the submission of the information in compliance with the modes adopted by the management for operational decision-making.

Therefore, the identification of the sectors of operation and the information submitted are defined based on the internal reporting used by the management for the allocation of the resources to the different segments and for the analysis of the relevant performance.

A sector of operations is defined by IFRS 8 as a component of an entity that : I) undertakes entrepreneurial activities that generate cost and revenue (including the revenues and costs concerning operations with other components of the same entity); II) whose operational results are regularly reviewed at the highest operational decision-making level of the entity for the purposes of the adoption of decisions as related to the resources to be allocated to the sectors and of the assessment of the results; III) for which separate information is available in the financial statement.

The management has identified only one operational sector, into which all the main services and products supplied to the customers flow, since the company business consists of the management of the Integrated Water Service which is not further broken down at the level of the internal strategic reporting.

Cash and cash equivalents

Liquidity includes the cash on hand, also in the form of checks, and on demand bank deposits. The equivalent means consist of financial investments with quarterly expiry or shorter (from the date of their acquisition), which can be promptly converted into liquidity and with an insignificant risk of change in their value.

These items are calculated at fair value; profits or losses deriving from any changes in the fair value are reported in the Financial Statement.

Own shares

Owned shares are reported at their purchase price and - starting from the fiscal year in conclusion - are reported as a reduction of the Net Equity. The counter value deriving from their release is also reported with net equity counterpart, with no computing into the Financial Statement.

Provisions for risks contingencies and charges, benefits to the employees

The provisions for contingencies and charges concern charges of a specific nature, certain or probable, which on the balance sheet closure date are of an undetermined amount or lifespan. The allocations are identified when: The provisions are identified when: (i) the existence of a current, legal or implicit obligation deriving from a past event, is likely; (ii) the compliance with subject obligation is likely to be burdensome; (iii) the amount of the obligation can be reliably estimated.

The allocations to the funds represent the best estimate of the costs required for compliance at the date of the balance sheet (assuming there are sufficient elements to run this estimate) and they are actualized when the effect is significant, and the required information is available. In such cases, the allocations are determined by actualizing the future cash flows at a discount rate before taxes that reflects the current market assessment and takes into account the risks connected to the company business. When the actualization is performed, the

increment of the provisions due to time is reported in the financial charges. If the liabilities are due to material activities (e.g.: revamping of sites) the fund is reported in counterpart to the activity it refers to and the charge is itemized in the Financial Statement through the depreciation of the tangible asset that the charge refers to. In case of redefinition of the liabilities, the methods provided for by IFRIC 1 are applied.

The explanatory notes also illustrate potential liabilities represented by: (i) potential - though not likely - obligations deriving from past events, whose existence is only confirmed upon occurrence of one or more uncertain future events not under the full control of the Company; (ii) current obligations deriving from past events, whose amount cannot be reliably estimated or whose compliance is likely not to be onerous.

Benefits to the employees (Severance pay)

The liabilities relevant to the defined benefit programs (such as the Severance pay for the amount accrued before January 1st 2007 and the other benefits for the employees) are defined net of any activities at the service of the plan, on the basis of current assumptions and by competences, consistently with the working performance required to obtain these benefits; the assessment of the liabilities is performed with the support of independent actuaries. The value of the current profits and losses is reported into the other components of the total Financial Statement. Based on the Financial Law of December 27th 2006 no. 296, for companies having more than 50 employees, as related to shares accrued starting from January 1st 2007, Severance Pay is configured as a plan with defined contributions.

Commercial payables and other current liabilities

Commercial payables and other debts are initially reported at fair value, net of the accessory costs of direct computing, and they are then detected at the depreciated cost, where significant, applying the criteria of the actual interest rate.

The «Other current liabilities" item includes current includes the "bound revenues" share" (FoNI ex art. 42 Annex "A" to AEEG resolution no. 585/2012) determined by Territory Authority Torinese no. 3 with resolution no. 483/2013 and reported in fiscal year 2012.

Costs and revenues

The costs and revenues are reported net of the amended items, i.e. returns, discounts, reductions and any estimate changes. They are identified at the moment the customer is transferred the risks and benefits relevant to the product sold, i.e. as related to the services, in the accounting period they are rendered.

In particular, for revenues:

- The revenues for service performance are acknowledged at the date the performance is completed;
- Revenues for the sale of water acknowledged and counted at the time of delivery, including the allocation for deliveries made, but not yet invoiced (estimated according to historical analysis determined in relation to past consumption);
- Revenues for the sale of products are acknowledged at the moment the risks and benefits relevant to the product sold are transferred to the customer, generally corresponding to the delivery or shipment of the goods.

The costs are accounted for according to the accrual principle.

Contributions for Plants

Contributions for plants are reported in the accounts once there is the justification documentation of the imminent collection by the paying entity. These concur to form the result of the fiscal year according to the rules of economic accrual, determined as related to the residual economic and technical lifespan of the assets they refer to.

Financial income and charges

Financial proceeds and charges are calculated according to the accrual principle. The dividends of other companies are recorded in the Financial Statement at the moment in which the right to receive payment has been established.

Income tax for year

Income tax for the year consists of the sum of current and deferred taxes. Income tax is based on profit for the year before taxes. Profit before taxes differs from the result entered in the Financial Statement since it excludes positive and negative components that will be taxable or deductible in other fiscal years and - furthermore - it excludes items that will never be taxable or deductible. "Liabilities for current taxes" are calculated using the rates in force as of the date of the Financial Statements. In determining the fiscal year taxes, the Company has taken into due consideration the effects deriving from the last fiscal reform introduced by Law no. 244 of

December 24th 2007 and - in particular - the reinforced derivation principle established by art. 83 of TUIR, that provides that the subject applying the international accounting principles enforce, also in derogation to TUIR's provisions, "the criteria of qualification, temporary computing and classification to the Financial Statements provided by said accounting principles".

Deferred taxes are calculated as related to the temporary differences in the taxation and are entered under "Deferred tax liabilities". Deferred tax credits are calculated to the extent in which, in the fiscal years during which the relevant temporary differences will spill over, the existence of a taxable income at least equal to the amount of the differences that will be annulled is deemed probable. The deferred and anticipated taxes are determined on the basis of the tax rates expected to be applicable in the fiscal year in which the tax credit will be realized or the tax debt will be extinguished, on the basis of the tax rates defined by measures in force or substantially in force as of the reference date of the financial statement. These changes are entered either under the Financial Statement or under net equity, as related to the computing made at the origin of the reference difference.

Impairment test

The accounting values of the Group activities are assessed at every reference date of the statement of account, in order to determine whether there are indications of value reductions, in which case the recoverable value of the activity is estimated. A loss by value reduction (impairment) is recorded in the Financial Statement when the accounting value of an asset or of a unit that generates financial flows exceeds the recoverable value.

The recoverable value of the non-financial activities correspond to the greatest value between their "fair value" net to the sale cost and the currently used value. To determine the currently used value, the estimated future financial flows are actualized using a discount rate that reflects the market assessment of the money value and of the risks related to the type of activity. For activities that do not generate financial flows in input, that are widely independent, the recoverable value of the unit that generates financial flows to which the asset belongs is calculated.

When, subsequently, a loss on assets other than goodwill and other assets of indefinite useful lifespan, no longer exists or is reduced, the accounting value of the asset and of the asset that generates financial flows is increased until the new estimate of the recoverable value is calculated, which cannot exceed the value that would be determined if no loss were detected by impairment. The recovery of an impairment is immediately recorded in the Financial Statement.

Conversion of exchange rate earnings/losses

The functional and presentation currency adopted by SMAT S.p.A. is the Euro. Transactions in foreign currencies are initially identified at the exchange rate at the date of the operation. The assets and liabilities in currency - with the exception of the tangible assets - are reported in the reference exchange rate at the date the fiscal year is closed and the relevant profits and losses on the exchange rate are regularly computed to the Financial Statement; the net profit - if any - which could arise is allocated to a dedicated non-distributable reserve up to the date of use.

Use of estimates

The drafting of the statement of accounts and relevant explanatory notes requires the administration entity to run estimates that affect the values of the balance sheet assets and liabilities and on the information relevant to the potential assets and liabilities to the date of the balance sheet.

The current situation of generalized economic and financial crisis requires making assumptions as related to future trends, which are characterized by uncertainty. Subsequently, we cannot exclude different results from the estimates in the future, which could therefore require amendments that cannot be estimated today or be foreseen at the accounting value of the relevant balance sheet items.

Estimates are utilized in different areas, such as the credit write-down fund, the Risk Fund for Potential Liabilities, the depreciation, the assessment of the assets relevant to participating interest in related companies and subsidiaries, the sale revenues, the costs and changes relevant to the management of the Integrated Water Service, and the revenue taxes.

The estimates and assumptions are periodically reviewed by the Group on the basis of improved knowledge of the activity and other factors that can be reasonably derived from the current circumstances, and the effects of any changes are immediately reflected in the Financial Statement.

Additional information

Company agreements outside the Statement of Assets and Liabilities

Bear in mind there are no agreements resulting from the Financial Statement that can have a significant impact on the equity and financial status, or on the economic result of the Company.

Amounts expressed in the Supplementary Note

Unless otherwise indicated, the amounts reported in the Supplementary Note are expressed in Euros with rounding up for hundredths equal to or greater than 50.

Accounting principles, IFRS amendments and interpretations adopted from 1 January 2018

The following IFRS accounting principles, amendments and interpretations were applied for the first time by the group starting as of 1 January 2018:

- On 28 May 2014, IASB published the **IFRS 15 – Revenue from Contracts with Customers** principle, together with clarifications published on 12 April 2016, destined to replace the IAS 18 – *Revenue* and IAS 11 – *Construction Contracts* principles, as well as the interpretations of the IFRIC 13 – *Customer Loyalty Programs*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The principle establishes a new model of acknowledging revenues, which will be applied to all the contracts stipulated with the customers, with the exception of those that are within the field of application of other IAS/IFRS principles such as leasing, insurance contracts and financial instruments. The essential passages for the accounting of the revenues in compliance with the new model are:
 - o identifying the contract with the customer;
 - o identifying the performance obligations of the contract;
 - o determining the price;
 - o allocating the price to the contract's performance obligation;
 - o the criteria for calculating the revenue when the amount meets every performance obligation.The principle was applied as of 1 January 2018 and did not produce significant effects in the balance sheet.

- On 24 July 2014, IASB published the final version of the **IFRS 9 – Financial Instruments: recognition and measurement**. The document collects the results of the IASB project aimed at replacing IAS 39: The new principle must be applied on the balance sheets that start on January 1st 2018 or later. It introduces new criteria for the classification and assessment of the financial assets and liabilities. In particular, for financial activities, the new principle uses a unique approach based on management methods for financial instruments and contractual cash flow characteristics for financial activities to determine the assessment criteria, replacing the different rules set forth in IAS 39. For financial liabilities, the principle changes the the accounting method used for variations in *fair value* from financial liability designated as financial liability valued at *fair value* through the financial statement, in the case in which these variations are due to variation in the credit-worthiness of the issuer of the same liability. According to the new principle, these variations must be discerned in the prospectus "*Other comprehensive income*" and no longer included in the financial statement. Furthermore, in the changes to non-substantial financial liabilities, spreading the economic effects of re-negotiating residual duration of debt, modifying the actual interest rate on that date, is no longer allowed. It is now necessary to detail the relative effect in the financial statement.

With reference to the *impairment model*, the new principle requires that the estimate of the losses on credits is performed on the basis of the expected losses model (instead of on the model of the incurred losses utilized by IAS 39) using supportable information, available without charges or unreasonable efforts that required historical, current and perspective data; The principle foresees that the *impairment model* is applied to all financial instruments, or to financial activities valued at the amortized cost, to those valued at *fair value through other comprehensive income*, to credits derived from rental contracts and commercial credits.

Finally, the principle introduces a new *hedge accounting* model, for the purpose of fulfilling the requirements set forth in the current IAS 39, which were sometimes considered too stringent and not suitable for reflecting the *risk management* policies of the company. The main new items from the document include:

- o increase in the type of eligible transactions for hedge accounting, also including non-financial assets-liabilities risks that are eligible for management in hedge accounting;
- o change from the accounting mode of the forward contracts and the options, when they include a hedge accounting report, to reduce volatility in the financial statement;

- o the changes to the efficacy test through the replacement of current methods based on the 80-125% “economic ratio” between the covered item and coverage instrument; furthermore, it will no longer be required to assess the retrospective efficacy of the coverage ratio.

More flexibility in the new accounting rules and counter-balancing additional information requirements on *risk management* in the company.

The group opted for the application of the new principle with a retrospective approach, except when the principle negated re-determination of previous fiscal years, starting from 1 January 2018. The comparative data for the first fiscal year of application were not re-determined, in line with the simplified approach foreseen in the same principle. Finally, it should be stated that based on the nature of its business activities, the Group did not change the classification and valuation of financial activities.

Analysis relative to the application of the new principle on values in the balance sheet on 1 January 2018 were relative to the impairment model based on expected credit loss: the Group developed a new credit analysis model, including credits not yet expired in the estimate of the credit depreciation fund and re-determining the depreciation percentages to be applied to the different categories of expired credits based on historical trends; these analysis did not produce significant differences.

Accounting principles, amendments and interpretations IFRS and IFRIC authorized by the European Union, not yet mandatory and not adopted in advance by the Group on 31 December 2018

- On January 13th 2016, IASB published principle **IFRS 16 – Leases**, which will supersede principle IAS 17 – *Leases*, as well as IFRIC 4 *interpretations Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new principle provides a new definition of *lease* and introduces a criterion based on control (*right of use*) of an asset to distinguish the *leasing* contracts from the service contracts, identifying as discriminating elements: the identification of the asset, the right of its replacement, the right to obtain essentially all the economic benefits deriving from the use of the asset and the right to direct the use of the asset represented in the contract.

The principle establishes a sole model to acknowledge and assess the leasing contracts for the *lessee*, which envisages entry of the asset subject to the *lease* - also if operational - under assets with the contra item financial charges. On the contrary, the standard does not include significant changes for the lessors

The principle applies starting from January 1st 2019, but an advanced application is allowed.

The Company completed the preliminary *assessment* project for potential impacts from the application of the new principle on the date of transition (1 January 2019). This process was articulated into several stages, among which the complete mapping of contracts that are potentially compatible for containing a lease and analysis of the contracts to understand the main relevant clauses pertinent to IFRS 16.

The *implementation* process for the principle is currently close to completion, which includes setting the computer infrastructure dedicated to managing accounting based on the principle and alignment of administrative processes and controls for the supervision of critical areas the principle is applied to. This process should be completed over the next few months.

The Company decided to apply the principle retrospectively and analysis carried out has not produced a cumulative effect derived from the application of the principle in net equity on 1 January 2019, according to the terms set forth in the sections of IFRS 16:C7-C13. In particular, relative to leasing contracts previously classified as operative, the Company will account:

- o financial liability, equal to the current value of future residual payments on the date of transition, implemented using the applicable incremental borrowing rate on the date of transition for each contract;
- o usage right equal to the value of financial liability on the date of the transition, net of any accruals and deferrals in the statement of assets and liabilities on the date of closure for this balance sheet.

The following table reports the estimated impacts of adoption of the IFRS 16 on the date of transition.

		Impacts on the date of transition (01.01.2019)
		<i>amounts in thousands of Euros</i>
ASSETS		
Non-current assets		
<i>Land and building usage rights</i>	€	428
<i>Vehicle usage rights</i>	€	1,917
<i>Hardware usage rights</i>	€	8
Total		2,353
NET EQUITY AND LIABILITIES		
Non-current liabilities		
<i>Financial liability for non-current leases</i>	€	1,120
Current liabilities		
<i>Financial liability for current leases</i>	€	1,233
Total		2,353

With the adoption of the IFRS 16, the Company tends to take advantage of the right to extinguish described in section IFRS 16:5(a) in relation to *short-term leases* in all categories.

The Company also intends to take advantage of the right to extinguish granted by IFRS 16:5(b) as concerns contract leases for which the underlying asset is configured as a *low-value asset* (meaning that the underlying asset of the *lease* contract does not exceed Euro [define amount] when new). Contracts that are exempt fall mainly into the following categories:

- o Computers, telephones and tablets;
- o Printers;
- o Other electronic devices;

For these contracts, the introduction of IFRS 16 does not generate any financial liability from the lease and relative usage rights, but the rental contracts will be listed in the financial statement as line items for the duration of the contracts.

Furthermore, with reference to the transition rules, the Company will rely on the following expedient practices available in the case when the modified retrospective transition method is selected:

- o Use of the assessment made on 31 December 2018 according to the IAS 37 Provisions, Contingent Liabilities and Contingent Assets in relation to accounting onerous contracts in alternative to the application of the impairment test on the value of the usage right on 1 January 2019;
- o Classification of contracts that expire with 12 months from the date of transition as short-term lease. For these contracts the lease payments will be entered into the financial statement as line items;
- o Exclusion of direct initial costs from measuring the usage right on 1 January 2019;
- o Use of the information present on the date of transition for the determination of the lease term, with particular reference to exercising the option to extend or to conclude in advance.

The transition to IFRS 16 introduces some professional judgments that require definition of some accounting policies and use of hiring and estimates in relation to the *lease term*, and definition of the *incremental borrowing rate*. The main decisions are presented as follows:

- o The Company has decided not to apply IFRS 16 for contracts containing a lease that has an intangible asset as its underlying activity;
- o the Group analyzed the sum of all leasing contracts, defining for each the lease term, based on the "cannot be canceled" period combined with the effects of possible extension or advance conclusion clauses for which implementation was considered reasonably certain. Specifically, for these assets the assessment took into consideration the facts and circumstances of each activity. With regard to the other categories of assets, mainly corporate vehicles and equipment, the Group generally considered implementation of possible extension or advance conclusion clauses to be improbable, in light of the Group's usual practices.
- o Since the majority of rental contracts stipulated by the Group do not include an implicit interest rate, the actualization rate to be applied to future payments of rents was determined as a risk-free rate with deadlines aligned with the duration of the specific rental contract, increase in credit spread

- On 12 October 2017, IASB published an amendment to **IFRS 9 “Prepayment Features with Negative Compensation**. This document specifies that instruments that require advance reimbursement must respect the *Solely Payments of Principal and Interest* (“SPPI”) test, also in the case in which the “reasonable additional compensation” to be paid for advance reimbursement on a “negative compensation” for the issuer of financing. The principle will be applied starting from January 1st 2019, but advance application is allowed. The Board Members do not expect a significant effect in the consolidated financial statement of the Group from the adoption of these changes.
- On 7 June 2017, IASB published the interpretation “**Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)**”. The interpretation deals with uncertainties about the fiscal regimes to be adopted on income taxes. In particular, the interpretation requires an entity to analyze *uncertain tax treatments* (individually or as a whole, according to the specifics), always with the assumption that the tax authorities examine the fiscal position in question, with full knowledge of all relevant information. If the entity considers it improbable for that the tax authorities would accept the tax regime being followed, the entity must reflect the uncertainty in a measure of its taxes on current and deferred income. Furthermore, the document does not contain any new reporting obligations, but emphasizes that the entity must establish if it is necessary to provide information about the considerations made by management and relative uncertainty inherent in tax accounting, in accordance with IAS 1.
The new principle shall be applied starting from January 1st 2019, but advance application is allowed. The Board Members do not expect a significant effect in the consolidated balance sheet from the adoption of these changes.

Accounting principles, IFRS amendments and interpretations not yet certified by the European Union

To the date of reference of this consolidated balance sheet, the competent bodies of the European Union have not yet concluded the certification process required for the adoption of the amendments and principles described herein.

- On 18 May 2017, IASB published the principle **IFRS 17 – Insurance Contracts** which is destined to replace IFRS 4 – *Insurance Contracts*.
The objective of the new principle is to guarantee that an entity provides pertinent information that faithfully represents the rights and obligations derived from issued insurance contracts. The IASB has developed a standard for elimination of existing incongruities and weaknesses in accounting policies, providing a single principle-based framework for taking into account all types of insurance contracts, including reinsurance contracts held by the insurer.
The new principle also includes requirements for presentation and reporting to improve comparability among the entities in this sector.
The new principle measures an insurance contract based on a *General Model* or a simplified version of the same, called the *Premium Allocation Approach* (“PAA”).
The main characteristics of the *General Model* are:
 - o the estimates and the hypotheses for future cash flows are always current;
 - o the measurement reflects the temporal value of money;
 - o the estimates foresee extensive use of observable information on the market;
 - o there is current and explicit risk measurement;
 - o the expected profile is differentiated and aggregated into groups of insurance contracts at the moment of initial reading; and,
 - o the expected profit in the period of contractual coverage takes into account changes deriving from variations in the hypothesis relative to financial flows for each group of contracts.

The PAA approach includes measurement of liabilities for the residual coverage of a group of insurance contracts on the condition that, at the time of initial reading, the entity expects that this liability represents a reasonable approximation of the General Model. Contracts with a period of coverage of one year or less are automatically suitable for the PAA approach. Simplifications derived from the application of the PAA method are not applied to assessment of liability for *claims* in general, which are measured using the *General Model*. Nevertheless, it is not necessary to actualize those cash flows if it is expected that the balance to be paid or received is due within one year from the date of the *claim*.

The entity must apply the new principle to issued insurance contracts, including issued reinsurance contracts, held reinsurance contracts and investment contracts with a *discretionary participation feature* (DPF).

The principle applies starting from January 1st 2021, but an advanced application is allowed, only for those entities that apply IFRS 9 - Financial Instruments - and IFRS 15 - Revenue from Contracts with Customers.

The Board Members do not expect a significant effect in the consolidated balance sheet from the adoption of this principle.

- On 12 October 2017, IASB published the document “**Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)**”. This document explains the requirement to apply IFRS 9, including requirements linked to *impairment*, other long-term interests in partner companies and joint ventures for which the net equity method is not applied. The principle will be applied starting from January 1st 2019, but advance application is allowed.

The Board Members do not expect a significant effect in the consolidated financial statement of the Group from the adoption of these changes.

- On 12 December 2017, IASB published the document “**Annual Improvements to IFRSs 2015-2017 Cycle**” which implements the changes to some principles in the scope of the annual improvement process for the same. The main changes are relative to:
 - o **IFRS 3 Business Combinations** and **IFRS 11 Joint Arrangements**: the amendment clarifies that at the moment an entity obtains control of a *business* that is a *joint operation*, it must re-measure in previously held interest in that same *business*. This process is not foreseen in the case of obtaining joint control.
 - o IAS 12 *Income Taxes*: this amendment explains that all the fiscal effects linked to dividends (including payments on financial instruments classified within net equity) should be accounted in alignment with the transaction that generated the same profits (financial statement, OCI or net equity).
 - o IAS 23 *Borrowing costs*: this change explains that in the case of financing that remains after the *qualifying asset* of reference is ready for use or for sale, the same become part of the group of financing loans used to calculate financing costs.

The changes will be applied starting from January 1st 2019, but advance application is allowed. The Board Members do not expect a significant effect in the consolidated financial statement of the Group from the adoption of these amendments.

- On 7 February 2018, IASB published the document “**Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)**”. The document explains how an entity must operate a change (i.e. a *curtailment* or a *settlement*) in a plan with defined benefits. The changes require the entity to update their hypotheses and re-measure liabilities or net activity according to the plan. The amendments state that after this event occurs, an entity uses updated hypotheses to measure the *current service cost* and interests for the rest of the period of reference following the event. At present, the Board Members are assessing the possible effects of the introduction of these amendments on the consolidated balance sheet of the Group, but they do not expect a significant effect in the consolidated balance of the Group from the adoption of these amendments.

- On 22 October 2018, IASB published the document “**Definition of a Business (Amendments to IFRS 3)**”. The document provides clarifications about the definition of business for the correct application of the IFRS 3 principle. In particular, the amendment states that a business usually produces output, the presence of output is not strictly necessary for identifying a business in the presence of a group of integrated activities/processes and goods. Nevertheless, to satisfy the definition of business, an integrated group of activities/processes and goods must include, as a minimum, input and a substantial process that together contribute significantly to the capacity to create output. For this purpose, IASB replaced the term "capacity to create output" with "capacity to contribute to the creation of output", to clarify that a business can exist also without the presence of all the input and processes necessary for creating output.

The amendment also introduced a “*concentration test*”, optional for the entity, to determine if a group of activities/processes and acquired goods is a type of *business*. If the test produces a positive result, the group of activities/processes and acquired goods does not constitute a *business* and the principle does not require further verification. If the test produces a negative result, the entity must perform further analysis on the activities/process and acquired goods to identify the presence of a *business*. For this purpose, the amendment added several illustrative examples to the IFRS 3 principle, to better understand the practical application of the new definition of a *business* from this specific perspective. The changes are applied to all the *business combinations* and acquisitions of businesses after 1 January 2020, but advance application is also allowed.

Considering that this amendment will be applied to new acquisition operations that conclude starting from 1 January 2020, any effects will be accounted in the consolidated balance sheets that conclude after that date.

- On 31 October 2018, IASB published the document **“Definition of Material (Amendments to IAS 1 and IAS 8)”**. The document introduced a change in the definition of “relevant” in the IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* principles. This amendment has the objective to render the definition of “relevant” more specific and introduced the concept of *“obscured information”* alongside the concepts of omitted or erroneous information already present in the two principles in question. The amendment clarifies that information is *“obscured”* if it was described in a way that generates an effect at first reading in a balance sheet similar to what would be produced if the information was omitted or erroneous.

The Board Members do not expect a significant effect in the consolidated financial statement of the Group from the adoption of this amendment.

- On 11 September 2014, IASB published an amendment to **IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture**. The document was published to resolve a current conflict between IAS 28 and IFRS 10.

According to IAS 28, the profits or losses resulting from transfer or cessation of a non-monetary asset. On the contrary, the IFRS 10 principle foresees the insertion of the entire profits or losses in the case of loss of control of a subsidiary company, also if the entity continues to hold a non-controlling share in the same company, also including cessation or transfer of a subsidiary company to a *joint venture* or partner company. The introduced changes include transfer/assignment of an activity or subsidiary company to a *joint venture* or partner company, the value of profit or loss inserted into the balance sheet of the transferor/assignor depends on whether the transferred/assigned activity or subsidiary company constitutes a *business* or not, according to application of the IFRS 3 principle. If the transferred/assigned business or subsidiary company represents a business, the entity must insert the profit or loss from the entire previously held share; in the contrary case, the portion of profit or loss relative to the share in possession by the entity must be eliminated. At present, IASB has suspended application of this amendment. The Board Members do not expect a significant effect in the consolidated financial statement of the Group from the adoption of these changes.

Comments on the entries of the Statement of Assets and Liabilities

REPORT FOR OPERATIVE CATEGORIES

Identification of service types and the information pertaining to each was based on the elements that the management uses to make its own operative decisions. In particular, internal accounting is audited and used periodically by the top decision-makers of the Group, taking as reference a single operating sector, within which all the principal services supplied to customers converge, so far as the Company's business consists of managing the Integrated Water Service.

ASSETS

1. Tangible fixed assets

€ 169,230,988

The composition of the tangible fixed assets and the relevant movements occurring during the fiscal year are entered in the following table:

2017 Categories	Land and buildings	Plants and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Grand total
Historical cost at December 31 st 2016	87,228,366	303,318,701	11,543,123	15,099,273	12,838,214	430,027,677
Amortization fund at December 31 st 2016	(26,631,515)	(213,423,757)	(8,379,807)	(12,883,244)	0	(261,318,323)
Net value at December 31 st 2016	60,596,851	89,894,944	3,163,316	2,216,029	12,838,214	168,709,354
Reclassification/Accounting adjustments	89,119	58,721	0	31,250	(215,736)	(36,646)
Works in progress completed in 2017	1,272,607	973,916	0	60,657	(2,307,180)	0
Disinvestment in the fiscal year	0	(2,163)	(17,785)	(169,040)	0	(188,988)
Increases in the fiscal year	1,294,055	1,388,255	942,931	805,508	12,099,383	16,530,132
Historical cost at December 31 st 2017	89,884,147	305,737,430	12,468,269	15,827,648	22,414,681	446,332,175
Depreciation in the fiscal year	(2,788,513)	(12,019,801)	(594,336)	(756,172)	0	(16,158,822)
Use of funds	0	1,775	17,496	167,970	0	187,241
Amortization fund as of December 31 st 2017	(29,420,028)	(225,441,783)	(8,956,647)	(13,471,446)	0	(277,289,904)
Net value as of December 31 st 2017	60,464,119	80,295,647	3,511,622	2,356,202	22,414,681	169,042,271

2018 Categories	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Grand total
Historical cost at December 31 st 2017	89,884,147	305,737,430	12,468,269	15,827,648	22,414,681	446,332,175
Amortization fund as of December 31 st 2017	(29,420,028)	(225,441,783)	(8,956,647)	(13,471,446)	0	(277,289,904)
Net value as of December 31 st 2017	60,464,119	80,295,647	3,511,622	2,356,202	22,414,681	169,042,271
Ongoing reclassification concluded in 2018	0	0	0	0	(433,882)	(433,882)
Works in progress completed in 2018	3,269,935	934,306	349,632	0	(4,553,873)	0
Disinvestment in the fiscal year	(25,000)	(19,192)	(12,507)	(68,058)	0	(124,757)
Adjustments	(70,930)	(16,772)	0	0	(217,865)	(305,567)
Increases in the fiscal year	1,131,192	1,941,118	932,726	670,896	12,379,472	17,055,404
Historical cost as of December 31 st 2018	94,189,344	308,576,890	13,738,120	16,430,486	29,588,533	462,523,373
Amortizations in the fiscal year	(2,954,026)	(11,737,682)	(640,013)	(787,745)	0	(16,119,466)
Use of funds	18,604	21,129	12,372	64,880	0	116,985
Amortization fund as of December 31 st 2018	(32,355,450)	(237,158,336)	(9,584,288)	(14,194,311)	0	(293,292,385)
Net value as of December 31 st 2018	61,833,894	71,418,554	4,153,832	2,236,175	29,588,533	169,230,988

No value adjustment was implemented on the cost of acquisition or production of the assets. As indicated in the assessment criteria, the tangible assets also include the recording of the financial charges of direct computing relevant to the great works in progress.

The sources of income owned by the Group as property have been depreciated in compliance with the assessment criteria detailed in this Supplementary Note, as well as a function of representative rates of the relevant

estimated residual potential for utilization as of the date of this balance sheet. On the increments developed in the fiscal year, rates reduced by 50% were applied.

“Land and buildings” item includes in sub-category “Industrial buildings” the real estate located in the municipality of Bardonecchia, purchased by SMAT S.p.A. at the end of fiscal year 2011 for its future destination as a drinking water treatment plant, which will serve the Acquedotto di Valle and which, in consideration of its unavailability for use, was not subject to depreciation.

“Plants and machinery” also include sources of income (for approximately Euro 431,000) acquired from SAP S.p.A., by the Parent Company, as part of the sale of the business unit of July 1st 2015.

“Other tangible fixed assets” include furniture and furnishings, ordinary office equipment, electromechanical and electronic equipment, hardware, cars, motor vehicles for transport and other vehicles.

“Assets under construction and payments on account” include the value in compliance with the progress status of the works that are being developed at the end of the fiscal year, as well as of the prepayments paid to system suppliers, for a total amount of approximately Euro 22.4 million.

Subsequent to the application of IFRIC 12, “Service Concession Arrangements”, the revertible assets referred to the waterworks system of the City of Turin were reclassified under intangible assets.

Intangible fixed assets

€ 620,606,662

The composition of the intangible assets and the relevant movements during the fiscal year are shown in the following table:

2017 Categories	Goodwill	Plant and expansion costs	Development costs	Patent rights & industrial & intellectual property	Concessions, licenses, trademarks and similar rights	Assets under construction and payments on account	Other	Total Other intangible fixed assets	Assets under concession	Grand total
	A	B	C	D	E	F	G	H (B+C+D+E+F+G)	I	A+H+I
Historical cost as of December 31 st 2016	5,928,005	60,807	249,266	210,060	16,633,327	1,790,274	556,208	19,499,942	796,747,488	822,175,435
Amortization fund at December 31 st 2016	0	(60,807)	(249,266)	(210,060)	(15,742,713)	0	(156,209)	(16,419,055)	(243,084,259)	(259,503,314)
Net value as of December 31 st 2016	5,928,005	0	0	0	890,614	1,790,274	399,999	3,080,887	553,663,229	562,672,121
Reclassification /Accounting adjustments	0	0	0	0	0	(31,250)	0	(31,250)	56,554	25,304
Works in progress completed in 2017	0	0	0	0	749,772	(749,772)	0	0	0	0
Disinvestment in the fiscal year	0	0	0	0	(10,036)	0	0	(10,036)	(5,102)	(15,138)
Increases in the fiscal year	0	0	0	0	1,493,752	374,903	4,900	1,873,555	62,140,414	64,013,969
Historical cost as of December 31 st 2017	5,928,005	60,807	249,266	210,060	18,866,815	1,384,155	561,108	21,332,211	858,939,354	886,199,570
Amortizations in the fiscal	0	0	0	0	(1,326,700)	0	(11,936)	(1,338,636)	(36,287,725)	(37,626,361)
Use of funds	0	0	0	0	10,036	0	0	10,036	3,030	13,066
Amortization fund as of December 31 st 2017	0	(60,807)	(249,266)	(210,060)	(17,059,377)	0	(168,145)	(17,747,655)	(279,368,954)	(297,116,609)
Net value as of December 31 st 2017	5,928,005	0	0	0	1,807,438	1,384,155	392,963	3,584,556	579,570,400	589,082,961

2018 Categories	Goodwill	Plant and expansion costs	Development costs	Patent rights & in- dustrial & intellectual property	Concessions, li- censes, trademarks and similar rights	Assets under con- struction and payments on account	Other	Total Other intangi- ble fixed assets	Assets under conces- sion	Grand total
	A	B	C	D	E	F	G	H (B+C+D+E+F+G)	I	A+H+I
Historical cost as of December 31 st 2017	5,928,005	60,807	249,266	210,060	18,866,815	1,384,155	561,108	21,332,211	858,939,354	886,199,570
Amortization fund as of De- cember 31 st 2017	0	(60,807)	(249,266)	(210,060)	(17,059,377)	0	(168,145)	(17,747,655)	(279,368,954)	(297,116,609)
Net value as of December 31 st 2017	5,928,005	0	0	0	1,807,438	1,384,155	392,963	3,584,556	579,570,400	589,082,961
Ongoing reclas- sification concluded in 2018	0	0	0	0	0	0	0	0	433,882	433,882
Works in pro- gress completed in 2018	0	0	0	0	0	0	0	0	0	0
Disinvestment in the fiscal year	0	0	0	0	0	0	0	0	(20,466)	(20,466)
Adjustments	0	0	0	0	0	0	0	0	(1,257,650)	(1,257,650)
Increases in the fiscal year	0	0	0	0	1,241,823	226,441	0	1,468,264	72,220,682	73,688,946
Historical cost as of December 31 st 2018	5,928,005	60,807	249,266	210,060	20,108,638	1,610,596	561,108	22,800,475	930,315,802	959,044,282
Amortizations in the fiscal year	0	0	0	0	(1,473,537)	0	(11,936)	(1,485,473)	(40,177,233)	(41,662,706)
Use of funds	0	0	0	0	0	0	0	0	341,695	341,695
Amortization fund as of De- cember 31 st 2018	0	(60,807)	(249,266)	(210,060)	(18,532,914)	0	(180,081)	(19,233,128)	(319,204,492)	(338,437,620)
Net value as of December 31 st 2018	5,928,005	0	0	0	1,575,724	1,610,596	381,027	3,567,347	611,111,310	620,606,662

2. Goodwill

€ 5.928.005

The value of goodwill on December 31st 2018 can be attributed to the acquisition of the SAC business unit (January 1st 2014), amounting to Euro 96,000 and the SAP S.p.A. business unit (July 1st 2015) regarding the Municipalities of ATO 3 Torinese amounting to Euro 5,832,005, entered under the intangible assets with the approval of the Board of Auditors.

Starting on January 1st 2015, through the adoption of the international accounting principles, goodwill is no longer subject to depreciation, but submitted to impairment test, in compliance with the provisions of IAS 36. For further details, refer to comments in the dedicated section of the Consolidated Balance Sheet.

Goodwill was allocated to the Cash Generating Unit (CGU) in compliance with IAS 36.

In accordance with IAS 36, it is not subject to amortization, but to verification by impairment on a yearly basis, or more frequently, should an event or circumstances arise that may lead to the assumption of a value reduction. The impairment test is developed through the comparison between the net accounting value and the recoverable value of the CGU the goodwill was allocated to, determined with reference to the greatest value between the fair value net of the costs of sale and the value of use of the CGU. The value used was determined by applying the synthetic income method, actualizing operating income net of taxes (Net operating profit after tax: Nopat) relative to the CGU in the Economic Financial Plan 2015-2033, approved by the Ordinary Shareholder Meeting on 29.06.2015. The Economic and Financial Plan also highlights the results expected for the

whole duration of the license and - even though it is drafted on a time horizon longer than 5 years - it constitutes the representative document to identify the prospect cash flows. Furthermore, since the license has a pre-defined useful lifespan, the "terminal value" has not been defined.

The discount value utilized is represented by the WACC identified with reference to the sector the identified CGU operates within. The discount rate (WACC) utilized reflects the market assessments on the cost of money and the specific risks of the sector of activities and of the reference geographic area.

In particular, in determining the actualization rate, the following parameters were utilized:

- Real risk-free rate, equal to the revenue rate of the 10-year BTP, issued 28/12/2018, equal to 2.7%;
- Risk premiums at 5.96%;
- Beta unleveraged for the "water utilities" sector at 0.38;
- Specific risk premiums at 3.48%;
- Cost of debt net of taxes at 2.2%.

The estimated discount rate (WACC) is therefore 5.87%.

With reference to fiscal years 2018 and 2017, the impairment tests carried out do not show any value reductions in the goodwill entered.

The results of the impairment tests have been submitted to a sensitivity analysis aimed at verifying their variability with the change of the main assumptions at the basis of the estimate. To this purpose, two different scenarios were hypothesized as of December 31st 2018.

- scenario 1: actualization rate = 8.07%, with an increase approximately 220 base points with respect to the base scenario;
- scenario 2: actualization rate = 6.97%, with an increase of approximately 110 base points with respect to the base scenario.

The sensitivity analysis shows little sensitivity of the test with the change of assumptions at the basis of the estimate. More precisely, neither of the scenarios above would determine a loss of value of the goodwill.

3. Other intangible assets

€ 3,567,347

The intangible assets are entered amongst the balance sheet assets, since they are part of the assets allocated to be durably used. No value adjustment was applied to the cost of acquisition or production of the intangible assets.

"Concessions, licenses, trademarks and similar rights" includes the cost incurred for the acquisition of software licenses depreciated in three fiscal years, and for the deposit of trademarks, which are depreciated in ten fiscal years.

"Assets under construction and payments on account" records the value – according to the state of progress - of the design costs to adapt the safeguard areas and studies to install flow rate metering instruments in the sewers to detect anomalous inputs.

Furthermore, since 2014, the entry "Other" also includes the "Surface right" regarding the parking places at the "Palazzo" car park.

2017 Categories	Usage rights granted by CIACT	Usage rights constituting the aqueduct system for the City of Turin	Improvements on assets constituting the aqueduct system for the City of Turin	Improvements on external aque- duct assets in management	Ongoing improvement works on assets constituting the aqueduct of the City of Turin	Ongoing improvement works on assets of external aqueducts in management	Revertible assets	Total Concessions
Historical cost as of December 31 st 2016	3,834,635	50,871,004	156,255,391	433,015,937	14,186,845	133,177,312	5,406,364	796,747,488
Amortization fund at December 31 st 2016	(2,443,936)	(33,685,735)	(57,150,851)	(145,752,216)	0	0	(4,051,521)	(243,084,259)
Net value as of December 31 st 2016	1,390,699	17,185,269	99,104,540	287,263,721	14,186,845	133,177,312	1,354,843	553,663,229
Adjustments	0	0	(1,412)	215,587	0	(157,621)	0	56,554
Works in progress completed in 2017	0	0	6,913,234	21,274,869	(6,849,200)	(21,338,903)	0	0
Disinvestment in the fiscal year	0	0	0	(5,102)	0	0	0	(5,102)
Increases in the fiscal year	0	0	5,863,145	15,361,846	3,150,025	37,765,398	0	62,140,414
Historical cost as of December 31 st 2017	3,834,635	50,871,004	169,030,358	469,863,137	10,487,670	149,446,186	5,406,364	858,939,354
Depreciation in the fiscal year	(81,805)	(1,010,898)	(7,747,711)	(27,208,263)	0	0	(239,048)	(36,287,725)
Use of funds	0	0	70	2,960	0	0	0	3,030
Amortization fund as of December 31 st 2017	(2,525,741)	(34,696,633)	(64,898,492)	(172,957,519)	0	0	(4,290,569)	(279,368,954)
Net value as of December 31 st 2017	1,308,894	16,174,371	104,131,866	296,905,618	10,487,670	149,446,186	1,115,795	579,570,400

2018 Categories	Usage rights granted by CIACT	Usage rights constituting the aqueduct system for the City of Turin	Improvements on assets constituting the aqueduct system for the City of Turin	Improvements on external aqueduct assets in management	Ongoing improvement works on assets constituting the aqueduct of the City of Turin	Ongoing improvement works on assets of external aqueducts in management	Revertible assets	Total Assets under concession
Historical cost as of December 31 st 2017	3,834,635	50,871,004	169,030,358	469,863,137	10,487,670	149,446,186	5,406,364	858,939,354
Amortization fund as of December 31 st 2017	(2,525,741)	(34,696,633)	(64,898,492)	(172,957,519)	0	0	(4,290,569)	(279,368,954)
Net value as of December 31 st 2017	1,308,894	16,174,371	104,131,866	296,905,618	10,487,670	149,446,186	1,115,795	579,570,400
Ongoing reclassification concluded in 2018	0	0	0	433,882	0	0	0	433,882
Works in progress completed in 2018	0	0	2,356,993	57,322,749	(2,356,993)	(57,322,749)	0	0
Disinvestment in the fiscal year	0	0	0	(20,466)	0	0	0	(20,466)
Adjustments	0	0	(394,213)	(675,243)	(15,077)	(173,117)	0	(1,257,650)
Increases in the fiscal year	0	0	5,063,583	16,985,762	8,212,747	41,958,590	0	72,220,682
Historical cost as of December 31 st 2018	3,834,635	50,871,004	176,056,721	543,909,821	16,328,347	133,908,910	5,406,364	930,315,802
Depreciation in the fiscal year	(81,805)	(1,010,898)	(8,097,577)	(30,771,339)	0	0	(215,614)	(40,177,233)
Use of funds	0	0	121,380	220,315	0	0	0	341,695
Amortization fund as of December 31 st 2018	(2,607,546)	(35,707,531)	(72,874,689)	(203,508,543)	0	0	(4,506,183)	(319,204,492)
Net value as of December 31 st 2018	1,227,089	15,163,473	103,182,032	340,401,278	16,328,347	133,908,910	900,181	611,111,310

Subsequent to the adoption of IFRIC 12, this category includes the improvements for the enhancement of the assets received in use by the City of Turin, as well as the well water systems assigned to the direct management of the Company and amortized according to the estimated residual useful economic-technical life.

This entry also refers to "Revertible assets", which show the values of the extensions, realized by the former Shareholder AAM Torino S.p.A., to add to the aqueduct system of the City of Turin and received by the same in provision, for which the constraint for free transmission at the end of the relative lease was stipulated.

Moreover it includes the value of the "Right of use of the assets that constitute the waterworks system", which is mandatory and already acknowledged by the City of Turin when granted to the former Shareholder AAM Torino S.p.A. and then granted by the latter to SMAT Torino S.p.A. The entry also includes the value of the right to use the waterworks system received in provision as of 1/01/2003 by the C.I.A.C.T. in liquidation. The values are represented in compliance with the expert appraisals drafted for the purposes of the transfers and amortized as a function of the new expiration date of the agreement between Territory Authority no. 3 Torinese and SMAT S.p.A.

The value of usage rights is amortized based on the relative agreement deed.

Amortizations on improvements and revertible assets were determined with reference to the estimated economic-technical lifespan.

5. Investments

€ 13,675,862

In accordance with IAS 36, the value of the shares was the object of an impairment test by an independent consultant, which permitted verification of the durability of the accounting value for SMAT group shares.

Categories	Associates	Other enterprises	Grand total
Historical cost as of December 31 st 2017	43,102,340	3,536,923	46,639,263
Value adjustment as of December 31 st 2017	(27,387,925)	(78,126)	(27,466,051)
Net value as of December 31 st 2017	15,714,415	3,458,797	19,173,212
Increases in 2018			
Decreases in 2018			
Value adjustment in 2018	(5,497,350)		(5,497,350)
Net value in 2018	10,217,065	3,458,797	13,675,862
Historical cost as of December 31 st 2018	43,102,340	3,536,923	46,639,263
Total Value adjustment as of December 31 st 2018	(32,885,275)	(78,126)	(32,963,401)
Net value as of December 31st 2018	10,217,065	3,458,797	13,675,862

The shareholding in Acque Potabili S.p.A. was assessed at Euro 10.2 million as related to the fraction of Net Equity from Parent Company SMAT S.p.A., as already described in detail in the Management Report.

This value is supported by the impairment test carried out by an external independent expert based on the equity method.

Through Acque Potabili S.p.A., SMAT S.p.A. has undirected joint control of:

- Acquedotto del Monferrato S.p.A.

The shareholding in Acque Potabili Siciliane S.p.A. after the filing of the Extraordinary Administration Procedure of February 7th, 2012, in bankruptcy since October 10th 2013, has been reclassified as "Other companies" instead of shareholding in related companies, even though it was fully depreciated in the previous fiscal years.

As better indicated in the Management Report, it is completely out of SMAT Group consolidation area.

Pursuant to art. 2427, paragraph 1, no. 5 of the Italian Civil Code, the shareholding in subsidiaries, existing as of December 31st 2018, refers to:

- Shareholding in Acque Potabili S.p.A., registered office in Turin, Corso XI Febbraio n. 22, with the following characteristics:

Shareholding in Acque Potabili S.p.A.

a) Share capital of the investee company	€	7,633,096
b) Shares held	No.	3,429,125
c) Nominal value per share	€	1
d) Purchase cost	€	43,102,341
e) Stake held	%	44.92
f) Consolidated Book Value	€	10,217,065
g) Consolidated Net Equity	K/€	22,743
h) Consolidated result of previous fiscal year	K/€	(12,237)

The value of other shares is supported by the impairment test carried out by an external independent expert, who used the income method, where applicable, based on the weighted average cost of capital (WACC) of 5.87% foreseeing a perpetual growth rate (g) of 1.5%.

The fair value valuation of the other shares determined a value that is substantially aligned with the cost of investment, already recorded on December 31st 2017, at 3.5 million Euros. Even though the profitability of some investees in the medium term results positive, the values were not changed because they were not considered significant.

6. Deferred tax assets

€ 15,374,579

This item (€ 15,237,678 in the previous fiscal year) includes the credit deriving from the active deferred taxes calculated on the allocations for costs with future deductibility and on revenues for which taxes were paid in advance.

With respect to the previous fiscal year, it shows an increase of Euro 137,000, due to the combined effect of the postponement of the deduction of accrued costs in the fiscal year in progress, to future fiscal years and the deduction of relative costs in previous fiscal years, in this fiscal year.

These effects are itemized in the table below.

Description	Balance as of 12/31/2017	Repayment in 2018	% IRES/IRAP	Payable IRES/IRAP transfer as of 12/31/2018	Incremental costs in 2018	% IRES/IRAP	New IRES/IRAP credits as of 12/31/2018	Balance as of 12/31/2018
Multi-year accrued liabilities – F.O.N.I.	3,354,596							3,354,596
Risk and charges down-payment								
Expenses in BI IRAP	6,188,944	(8.162,668)	28.20%	(2,301,817)	5,812,268	28.20%	1,639,058	5,526,185
Expenses outside BI IRAP	52,409	(218,370)	24.00%	(52,409)				0
Provisions for bad debts	5,440,921	(669,880)	24.00%	(160,771)	4,312,269	24.00%	1,034,945	6,315,095
Provision for Amortization of Goodwill/ Trademarks SAP/SAC	7,282	(8,576)	27.90%	(2,394)				4,888
Local Taxes and accrued in fiscal year but paid the following year	283	(1,175)	24.00%	(283)		24.00%		0
Payable interest arrears	90,189	(147,586)	24.00%	(35,421)	66,320	24.00%	15,917	70,685
Unpaid Directors' fees	13,226	(17,791)	24.00%	(4,269)	67,631	24.00%	16,232	25,189
Maintenance costs exceeding deductible amount	3,323	(4,835)	24.00%	(1,160)	5,903	24.00%	1,415	3,579
Tax effects on infra-group operations	86,505	(43,519)	27.90%	(12,142)				74,362
TOTAL	15,237,678	(9,274,400)		(2,570,666)	10,264,391		2,707,567	15,374,579
TOTAL CHANGE IN DEFERRED TAX CREDITS							136,901	

7. Non-current financial assets **€ 985,669**

		12/31/2018	12/31/2017
– Receivable caution money	€	985,669	907,727
Total	€	985,669	907,727

8. Inventory **€ 7,601,363**

The item includes:

		12/31/2018	12/31/2017
– Raw, subsidiary materials and consumables	€	7,560,218	7,374,258
– Finished products and goods	€	41,145	41,145
Total	€	7,601,363	7,415,403

The total changes in inventory from the previous fiscal year amounted to € 185,960.

The value of the inventory is adjusted by a depreciation fund regarding slow turnover materials for an amount of € 770,000, which has not changed from the previous year.

The Inventory consists of materials that are not considered useful for several years. It is assessed in the balance sheet at the lowest price between the average weighted price and the market price.

No financial charges were attributed to the inventory value.

9. Trade and other receivables **€ 243,575,583**

The book value of the commercial receivables breaks down as follows:

		12/31/2018	12/31/2017
Due from customers			
• <i>Bills and invoices issued</i>	€	193,472,381	209,498,433
• <i>Bills and invoices to be issued</i>	€	66,492,546	72,396,130
• <i>Bad debt provision</i>	€	-28,253,358	-24,717,002
Total due from customers	€	231,711,569	257,177,561
Due from associates	€	57,325	253,550
Due from holding companies	€	3,655,770	4,310,199
Due from other	€	8,150,919	5,907,932
Net book value	€	243,575,583	267,649,242

DUE FROM CUSTOMERS **€ 231,711,569**

The net value of receivables due from customers demonstrates a decrease of approximately 25.5 million Euros in respect to the previous fiscal year, due to collection of bills with issue dates concentrated in the last period of 2017 and the utilities management computer application being fully operational, which ensured respect of all periodical invoicing deadlines and recovery of subsequent earnings. These receivables are entered at their estimated realizable value, taking into account a prudential write-down of approximately Euro 28.3 million, allocated in accordance with the provisions set forth in IFRS 9.

DUE FROM ASSOCIATES **€ 57,325**

The item (€ 253.550 in the previous fiscal year) is represented by receivables towards the SAP Group, which was reduced due to the total collection of receivables towards the partner company Acquedotto del Monferato.

DUE FROM HOLDING COMPANIES **€ 3,655,770**

This item includes receivables from the City of Turin deriving from normal commercial transactions executed at market conditions for water supply, rentals and accessory jobs.

With respect to the previous year (Euro 4,310,199) the entry decreased by approximately Euro 654,000

DUE FROM OTHER **€ 8,150,919**

These consist of residual commercial receivables The increase in respect to the previous fiscal year is correlated to the variation in advance payments to suppliers for tenders in accordance with amendments to law 98/2013.

10. Current tax assets **€ 6,424,908**

This item (Euro 8,195,269 in the previous fiscal year) refers mainly to IRES and IRAP receivables deriving from the advances paid in 2018, calculated by the historical method (approximately Euro 3.6 million) and the receivables regarding the IRES petition by the Parent Company for reimbursement pertaining to past tax periods, for the deductibility of IRAP for labor costs, presented with the procedures envisaged by the Revenue Agency Disposition of 12/17/2012.

11. Other current assets **€ 3,922,094**

		12/31/2018	12/31/2017
• Deferred charges	€	958,644	1,300,288
• Other assets	€	2,963,450	5,806,438
- Due from employees for amounts to be recovered through withholding	€	240,300	301,140
- Due from Territory rentals and contributions	€	21,433	21,433
- Due from other	€	2,701,717	5,483,865
Total	€	3,922,094	7,106,726

Due from Other refers mainly to receivables from the GSE incentivized rates (formerly Green Certificates) for approximately Euro 1,350 thousand Euro due from other parties for approximately Euro 273,000 for credit notes to be received and various receivables for approximately Euro 1,078 thousand.

Other deferrals include accrued amounts of subsequent fiscal years of other costs liquidated in the fiscal year.

12. Cash and cash equivalents **€ 120,344,247**

The liquid assets include:

		12/31/2018	12/31/2017
- Bank and Post Office deposits	€	120,299,418	131,909,317
- Checks	€	4,663	52,590
- Cash at hand	€	40,166	34,605
Total	€	120,344,247	131,996,512

The relevant increase from the previous fiscal year is due to the partial use during the current fiscal year of the nonconvertible debenture loan required to finance the investments envisaged by the Investment Plan of the Territory Authority 3 Torinese. All the aforementioned surpluses are liquid and fully available as of the date of the balance sheet without any constraints whatsoever, except for the collection clause on checks.

NET EQUITY AND LIABILITIES

The value in the Net Equity takes into account the resolutions taken by the Ordinary Shareholders of June 29th 2018 as related to the destination of the Parent Company results of fiscal year 2017.

13. Net Equity **€ 616,644,618****Net Equity belonging to the Group** **€ 616,282,915**

The book value takes into account the determinations assumed by the Ordinary Shareholder Meeting of June 29th 2018 as related to the destination of the Parent Company results of fiscal year 2017.

SHARE CAPITAL **€ 345,533,762**

The Share Capital is fully subscribed, paid and recorded in the Business Registry in compliance with the law and is composed of, as of the date of the Financial Statements, of 5,352,963 ordinary shares of the nominal value of Euro 64.55 each, owned by the Associates.

No transactions regarding the shares and share capital have occurred during the fiscal year.

LEGAL RESERVE **18,319,415**

The Legal reserve of Euro 15,298,020 as of 12/31/2017 increased by Euro 3,021,395 during the year as per the resolution of the Shareholder Meeting of 06/29/2018.

RESERVE RESTRICTED TO IMPLEMENTATION PEF **€ 199,509,171**

This reserve amounted to Euro 153,583,962 as of 12/31/2017 and increased in the course of the fiscal year by Euro 45,925,209 deriving from the Resolution of the Ordinary Shareholder Meeting of 06/29/2018.

FTA RESERVE**€ (2,845,993)**

This reserve includes the effects to Net Equity of FTA resulting from adoption of the international accounting principles, whose comment is entered in the specific paragraph of the Directors' Report.

OTHER RESERVES AND RETAINED EARNINGS**€ 3,892,987**

Other Reserves include:

		12/31/2018	12/31/2017
• Optional reserve	€	34,342,562	34,342,562
• Consolidation reserve	€	5,026,588	5,026,588
• Severance pay discount reserve	€	834,432	264,754
• Negative reserve of own shares in portfolio	€	(32,993,340)	(30,101,844)
• Reserve for rounding up units	€	(5)	(7)
• Retained earnings	€	(3,317,250)	(3,324,207)
Total	€	3,892,987	6,207,846

The negative reserve for own shares in portfolio equal to € 32,993,340 refers to 492,965 own shares acquired according to conforming authorization of the Ordinary Shareholder Meeting Over the course of the fiscal year, the Company purchased 18,000 shares from shareholder CIDIU S.p.A., in execution of the Resolution of the Ordinary Shareholder Meeting of 06/28/2017; 2.580 shares from shareholder CIDIU S.p.A. 7,169 shares from FCT Holding S.p.A. and 9,551 shares from Patrimonio Città di Settimo S.r.l. in execution of the Resolution of the Ordinary Shareholder Meeting of 06/29/2018.

The available reserves in the 2018 balance sheet, following acquisition of its own shares, are almost completely exhausted.

Profits carried forward decreased in the fiscal year by Euro 6,957.

PROFIT FOR THE YEAR**€ 51,873,573**

		12/31/2018	12/31/2017
Profit for the year	€	51,873,573	60,415,092

It corresponds to the balance of the Financial Statement as the difference between the total revenues and costs and it has been fully submitted to ordinary and deferred taxation for IRES and IRAP purposes.

NET EQUITY BELONGING TO NON-CONTROLLING INTERESTS**€ 361,703**

This item refers to non-controlling interests in the Net Equity in the subsidiaries in the consolidation and includes:

		31.12.2018	31.12.2017
- Capital & reserves of non-controlling interests	€	271,810	266,760
- Profit for the year	€	89,893	60,871
Total	€	361,703	327,631

SCHEDULE OF CORRELATION BETWEEN NET EQUITY AND OPERATING INCOME OF PARENT COMPANY AND CONSOLIDATED NET EQUITY AND PROFIT FOR THE YEAR

	12/31/2018		12/31/2017	
	Net Equity	of which: the Profit for the year	Net Equity	of which: the Profit for the year
Net equity and Profit for the year as entered in the fiscal year statement of accounts of the Parent Company	615,974,778	51,796,714	577,973,110	60,427,907
From elimination of load value of the consolidated				
- Effect of consolidation operations	179,603	(79,600)	150,226	(149,971)
Pro-quota results obtained from the investees	153,809	153,809	97,278	97,278
From net equity method evaluation of non-consolidated companies:	(25.275)	2,650	(27,925)	39,878
Net equity and profit for the year of the Group	616,282,915	51,873,573	578,192,689	60,415,092
Net equity and fiscal year results of competence of third parties	361,703	89,893	327,631	60,871
Net equity and profit for the year as entered in the consolidated balance sheet	616,644,618	51,963,466	578,520,320	60,475,963

14. Non-current and current financial liabilities € 333,808,022

Payables to financial institutions as of December 31st 2018 for medium to long term loans are itemized by type on the following table:

	31.12.2018	31.12.2017
Non-current financial payables		
Bonds	133,983,809	133,828,837
Payable loans	148,718,816	197,615,991
Total	282,702,625	331,444,828
Current financial payables		
Short-term payable loans	48,943,133	48,887,370
Due to banks and accrued financial payables	2,162,264	2,195,769
Total	51,105,397	51,083,139
Total financial payables	333,808,022	382,527,967

The financial payables are made up of:

- Due to banks and financial payables amounting to Euro 2,162,264, including the value of other short-term operations amounting to Euro 81,223, accrued financial payables amounting to Euro 2,081,041, which mainly refer to interests on debenture loans for the period;
- Other loans with total value amounting to Euro 331,645,758, net of the amortized residual cost of Euro 1,016,191 for the debenture loan of Euro 99,379 for payable loans.

Movement during the fiscal year is the following:

	Bonds	Loans	Total bonds
Balance to December 31st 2017	€ 133,828,837	246,503,361	380,332,198
Bond issue	€ 0		0
New payable loans	€	0	0
Reduction of amortized cost	€ 154,972	45,958	200,930
Repayments in the period	€ 0	-48,887,370	-48,887,370
Balance as of December 31st 2018	€ 133,983,809	197,661,949	331,645,758

The debt for medium to long term funding, gross of the depreciated cost, is detailed in the following table:

Loans	Due as at 12/31/2018
Bonds	€ 135,000,000
Payable loans	
Banco BPM (ex Italease)	€ 3,562,639
Intesa Sanpaolo	€ 6,450,893
European Investment Bank	€ 52,000,000
European Investment Bank	€ 43,460,000
Cassa Depositi e Prestiti	€ 22,500,000
European Investment Bank	€ 69,230,769
Other ¹⁰	€ 557,027
Total Payable loans	197,761,328
Total	€ 332,761,328

The table below shows the liabilities broken down according to type as of December 31st 2018, with an indication of the installments due within the next fiscal year, due between the 2nd and 5th year and due after the 5th year.

¹⁰ A total of six loans mainly from Cassa Depositi e Prestiti

Type	Residual amount	Due within next fiscal year	Due between the 2nd and 5th year	Due after the 5 th year
Bonds	135,000,000			135,000,000
Payable loans	197,761,328	48,943,133	148,818,195	
Due to banks and accrued financial payables	2,162,264	2,162,264		
Total	334,923,592	51,105,397	148,818,195	135,000,000

Below are the major contractual conditions.

Loans	Line of credit value	Duration (years)	Due date	Installment	Rate
Ordinary non-convertible loans	135,000,000	7	4/13/2024	annual	fixed
Banco BPM (ex Italease)	12,546,059	7	12/31/2020	biannual	Variable (Euribor 6m + spread)
Intesa Sanpaolo	50,000,000	15	6/30/2021	six months, constant equity	Variable (Euribor 6m + spread)
European Investment Bank	130,000,000	15	12/19/2022	six-monthly at constant capital	Variable (Euribor 6m + spread)
European Investment Bank	80,000,000	14	12/30/2022	six-monthly at constant capital	Variable (Euribor 6m + spread)
Cassa Depositi e Prestiti	50,000,000	15	6/30/2023	six-monthly at constant capital	Variable (Euribor 6m + spread)
European Investment Bank	100,000,000	9	6/30/2023	six-monthly at constant capital	fixed
Other	20,343,275	miscellaneous	2019-2022	six months constant/six months	fixed/Variable (Euribor 6m + spread)

The ordinary nonconvertible debenture loan was issued on April 13th 2017.

The bonds are assisted by a rating released by Standard & Poor's, as of 11/2/2017 reduced from "BBB" to "BBB-" (for details see the Directors' Report), and have a duration of seven years with a coupon of 1.95% and they are quoted on the regulated Dublin Stock Market (ISE – Irish Stock Exchange), rating confirmed on 11/26/2018.

Activation of the loan from financial institutions, to finance the investments in expansion and upgrading of the networks, water production, distribution, collection and treatment plants envisaged in the Investment Plan of ATO3, did not require any guarantee by the shareholders and envisages for its entire duration maintenance of the following financial parameter calculated on the data of the Consolidated Financial Statement closed as of 12/31 of the previous year and according to the definitions in the contractual stipulations:

- Net Financial Debt/EBITDA (EBIT+Amortization): lower than or equal to 5.

The Banco BPM (formerly Italease) loan was contracted by assumption in 2013.

The loan contracted with Intesa Sanpaolo (ex B.I.I.S.) is unsecured.

The loan taken in the form of guaranteed credit line, with the European Investment Bank for the provision of the resources required by the investment plan introduced in the Territorial Plan, are assisted by an appropriate guarantee issued by National Credit Institutions, third parties from EIB and by assignment of receivables, which can be claimed at the Territory Authority and third parties as related to the award agreement for management of the Integrated Water System within Territory 3 Torinese.

These credit lines have been fully utilized as a result of the progress of the activities, for which minimum portions of drawing have been stipulated.

More specifically:

- As related to the Euro 130 million loan taken for the development of the works of the investment plan for small and medium-sized infrastructures, the spread was agreed upon at each drawing and a commission calculated on the guaranteed amount remunerates the guarantee released.

- As related to the Euro 80 million loan taken for the development of the works included in the investment plan for large infrastructures, the spread was agreed upon at each drawing and the guarantee contract includes the obligation of maintaining - throughout the duration of the loans - of the following parameters, which are calculated on the Company Statement of Accounts for the Fiscal Year closed on December 31st of last year according to the definitions included in the contract clauses:
 - Net Financial Debt/EBITDA (EBIT+Amortization): lower than or equal to 5.
 - Net Financial Position/Net Equity: lower than or equal to 1.

The commissions paid every year vary within a predefined range lower than 100 bps as related to the position of the aforementioned ratio between Net Financial Debt/EBITDA (EBIT + Amortization)

- As related to the Euro 100 million loan, taken for the development of works included in the investment plan for small and medium-sized infrastructures, the following financial parameters apply for the whole duration of the loans, calculated on the data of the Fiscal Year Statement of Accounts of the Company that was closed on December 31st of the previous year and in compliance with the definitions included in the contract agreements.
 - Net Financial Position MOL (EBIT+depreciation): lower than or equal to 5.
 - Net Financial Position/Net Equity: lower than or equal to 1.
 - EBITDA (EBIT+ Depreciation)/Net financial expenses (excluding the value adjustment of financial assets) greater than 5

as well as maintaining the Residual value/Gross Financial Debt ratio greater than or 1.30 where the residual value calculated on the net accounting value, goodwill expenses excluded

The ratio is negative because Financial Income and Financial Expenses show a positive balance, since the financial income is greater than the financial expenses. Therefore, the covenant is complied with.

A commission calculated on the guaranteed amount remunerates the guarantee released.

The loan taken with Cassa Depositi and Prestiti S.p.A for the provision of Euro 50 million, as an integration of the aforementioned EIB loan for the total coverage of the needs connected to large infrastructures, is assisted by the assignment of receivables that can be claimed at the Territory Authority and the third parties as related to the execution of the agreement that awards the management of the Integrated Water Service in Territory 3 Torinese.

This loan involves the obligation to maintain - throughout its duration - the following financial parameters, which are calculated on the data of the Company's Financial Statement for the fiscal year closed on December 31st of the previous year and in compliance with the definitions included in the contract provisions.

- Net Financial Debt/ MOL (EBIT+Depreciation): lower than or equal to 5.
- Net Financial Position/Net Equity: lower than or equal to 1.

In cases of noncompliance with even only one of said financial parameters, the delivering institutions have the right to terminate the contract in advance.

It is worth highlighting that - as of December 31st 2018 - the aforementioned financial parameters are complied with.

Other loans include the mortgages received as a transfer and mainly stipulated with Cassa Depositi Prestiti.

15. Provision for Employee benefits € 16,947,465

The Provisions for employee benefits as of December 31st 2018 reflects the indemnity accrued by the employees up to December 31st 2006, which will be exhausted by the payments to be made at the end of the work relations, or of any advance in compliance with the law.

The movements of the fund (which is not influence by the shared accrued during the fiscal year in favor of the employees throughout the year) has been as follows:

Employee Severance Provision	
- Balance as of December 31 st 2017	€ 17,240,643
- Service cost	€ 69,517
- Utilization, adjustments, indemnities and advances paid out in the period	€ (1,286,368)
- Interest cost deriving from IAS 19	€ 216,458
- Profits (losses) actuarial	€ (530,278)
Balance as of December 31st 2018	€ 15,709,972

Other benefits refer to the estimated quantification of the seniority bonuses potentially due to employees that accrue the relevant requirements stipulated in in the company regulations entered below

Pension fund		
-	Balance as of December 31st 2017	€ 1,386,390
-	Service cost	€ 63,669
-	Utilization, adjustments, indemnities and advances paid out in the period	€ (189,954)
-	Interest cost deriving from IAS 19	€ 16,788
-	Profits (losses) actuarial	€ (39,400)
	Balance as of December 31st 2018	€ 1,237,493

The following tables illustrate, respectively, the economic, financial and demographic assumptions made for the actuarial assessment of the liabilities in question.

Economic-financial assumption

-	Yearly actualization rate	1.58%
-	Yearly inflation rate	1.50%
-	Yearly Severance Provision increase rate	2.625%

Demographic assumptions

-	Mortality	Tables RG 48
-	Disability	INPS tables by age and gender
-	Retirement age	Attainment of the requirements
-	% of advance payment frequency	1.50%
-	Turn-over	0.50%

16. Provisions for risks **€ 23,034,270**

These funds are represented by:

A) Allocations for litigation and charges **€ 14,183,301**

The allocations for litigation and charges reflect the prudent assessment - on the basis of valuation elements available - of the potential additional liabilities due to judicial and extra-judicial litigation which are currently in progress, as well as of other charges of various kinds which are certain or likely to occur in the future.

Movement of these allocations is as follows:

-	Balance as of December 31st 2017	€ 18,073,733
-	Provisions of the fiscal year	€ 1,511,704
-	Use in the fiscal year	€ (1,069,636)
-	Estimate adjustment	€ (4,332,500)
	Balance as of December 31st 2018	€ 14,183,301

The balance of the allocations for litigation and charges as of 12/31/2017 is considered to be congruous to cover the following estimated potential liabilities:

B) Provisions for routine maintenance charges **€ 959,844**

The provisions for routine maintenance charges reflects the valuation of the charge that was technically accrued but not yet liquidated as of the date of the Financial Statements because the routine maintenance programs are repeated over several years. This program cannot be planned with certainty since they concern systems in a continuous production cycle.

The provisions for 2018 have not varied from the previous fiscal year, considered congruent:

- Balance as of December 31 st 2017	€	959,844
- Provisions of the fiscal year	€	0
- Use in the fiscal year	€	0
Balance as of December 31st 2018	€	959,844

C) Allocations as per Regional Law of Piedmont 12/29/2000 no. 61 € 451,362

These reflect the destination of the administrative sanctions applied pursuant to art. 54 of Legislative Decree 152/99 to be applied to fund the development of actions aimed at preventing and reducing the pollution in bodies of water. Movement, which has been computed to the Financial Statement, in the fiscal year, was as follows:

- Balance as of December 31 st 2017	€	451,362
- Provisions of the fiscal year	€	0
Balance as of December 31st 2018	€	451,362

D) Provisions for Territory management charges € 6,789,763

The amount reflects the best estimate of the charges and of the potential risks connected to Territory management activities.

- Balance as of December 31 st 2017	€	6,594,520
- Provisions of the fiscal year	€	4,936,586
- Use in the fiscal year	€	(61,131)
- Estimate adjustment of the fiscal year	€	(4,680,212)
Balance as of December 31st 2018	€	6,789,763

E) Provisions for charges to other companies € 650,000

The provisions reflect the potential charges deriving from the commitments made by the shareholders for patronage of the Dexia-BIIS loan to APS S.p.A. in bankruptcy since 2013. The provisions were not subject to any movements during the current fiscal year.

- Balance as of December 31 st 2017	€	650,000
- Allocation in the fiscal year	€	0
- Adjustment of estimate in the fiscal year	€	0
Balance as of December 31st 2018	€	650,000

17. Deferred tax liabilities € 337,834

The amount includes the deferred charges for income taxes (IRES and IRAP), which are computed at the rates in force on revenues with deferred taxation and on the advanced deduction costs.

The entry (Euro 341,798 in the previous fiscal year) shows a reduction from the previous fiscal year, due to the combined effect of de-taxation of significant taxable revenues in future fiscal years, taxation of revenues that were computed in previous fiscal years and taxed in the current fiscal year.

These effects are itemized in the table below:

Description	Balance as of 12/31/2017	Costs transferred in 2018	% IRES/IRAP	IRES/IRAP debts transferred as of 31/2017	Capital costs in 2018	% IRES/IRAP	New IRES/IRAP payables as of 12/31/2018	Balance as of 12/31/2018
Advanced Depreciation	155,966							155,966
Receivable interest in arrears	150,953	(179,324)	24.00%	(43,037)	208,764	24.00%	50,103	158,018
Depreciated cost of FTA financial liabilities	34,879	(45,958)	24.00%	(11,030)				23,850
TOTAL	341,798	(225,282)		(54,067)	208,764		50,103	337,834
CHANGE IN DEFERRED TAX DEBTS							3,964	

18. Other non-current liabilities **€ 50,620,545**

This item is made up as follows:

		12/31/2018	12/31/2017
• Acquapoint advance deposits	€	470,022	431,600
• Contributions to pay out	€	68,747	92,747
• Multi-annual deferred income	€	50,081,776	51,779,102
Total	€	50,620,545	52,303,449

In application of IAS 16, item "Multi-year unearned income" includes the contribution shares for systems which were collected and computed to the fiscal years of competence, as related to the depreciation of the assets they refer to.

Furthermore, the "Multi-year deferred incomes" also includes the "bound revenue" share to be allocated to the coverage of investments (FoNI) Euro 11,895,728 (art. 42 Annex "A" AEEG resolution no. 585/2012).

19. Trade and other payables **€ 83,912,497****PREPAYMENTS** **€ 151,282**

The entry (Euro 195,253 in the previous fiscal year) includes the amounts advanced by users for works still to be completed as of closing date of the financial statement

DUE TO SUPPLIERS **€ 60,303,048**

Due to suppliers refers to:

		12/31/2018	12/31/2017
• Italian suppliers	€	27,875,759	24,585,691
• Foreign suppliers	€	99,241	170,886
• Invoices to be received	€	32,328,048	33,003,024
Total	€	60,303,048	57,759,601

All payables to suppliers are due within the end of one year and in no case are they assisted by guarantees, in addition to the withholding amount of 0.5% on the jobs.

DUE TO ASSOCIATES **€ 15,591**

		12/31/2018	12/31/2017
• Due to associates	€	15,591	49,546

The entries itemized in the section dedicated to it in the Directors' Report, include the payables to the SAP Group deriving from the residual commercial transactions operated at normal market conditions.

DUE TO HOLDING COMPANIES **€ 1,249,214**

		12/31/2018	12/31/2017
• DUE TO HOLDING COMPANIES	€	1,249,214	1,590,207

The entry referred to in the section dedicated to it in the Directors' Report refers to commercial payables to the City of Turin, and none of them is assisted by a real guarantee on the corporate assets.

DUE TO OTHERS **€22,193,362**

		12/31/2018	12/31/2017
• Due to others	€	22,193,362	19,578,303

This item consists mainly of commercial payables to the Operative Management Subjects for invoices to be received for contractual obligations undertaken with the same.

20. Current tax liabilities **€ 3,856,040**

		12/31/2018	12/31/2017
• Withholding taxes held from employees and third parties as tax substitute according to the law	€	1,826,182	1,737,419
• VAT ACCOUNT FOR TAX AGENCY	€	2,029,858	6,275,331
• IRAP/IRES	€	0	0
Total	€	3,856,040	8,012,750

These liabilities refer mainly to VAT due from the Parent Company for the fourth quarter of 2018, after the advance payment of Euro 2,029,858. The tax due in application of the VAT split payment system extended to subsidiaries by Public Entities on 07/01/2017 was paid regularly by the due date established by current law. Current fiscal liabilities are also entered under payables for Withholding tax held for employees and third parties in the amount of approximately Euro 1.8 million, this to paid on the due date.

21. Other current liabilities **€ 72,580,664**

The other payables include:

		12/31/2018	12/31/2017
• Due to Social Security Administration	€	4,251,355	4,098,848
• Accrued charges	€	0	10,501
• Deferred income	€	172,786	126,772
• From other:	€	68,156,523	65,335,194
• <i>Local Entity Rentals</i>	€	5,543,852	6,327,277
• <i>Mountain Union Contributions</i>	€	44,824,173	39,768,367
• <i>Due to SOG and Municipalities for accessory services</i>	€	528,971	918,606
• <i>Other debts to Entities and Municipalities for F/D collected on accounts</i>	€	3,097,344	2,697,301
• <i>Accruals to liquidate to employees</i>	€	6,541,300	6,376,920
• <i>Other payables</i>	€	7,487,233	8,921,591
• <i>Dividends to pay</i>	€	133,650	325,132
Total	€	72,580,664	69,571,315

Payables to social security institutions all accrue by the end of one year and in no case are they assisted by guarantee or encumbered with interest.

At the time of drawing up this financial statement, these payables were paid on their due dates.

Payables for Local Entity Rentals and the Comunità Montane (Mountain Unions) Contributions, up by approximately Euro 4.2 million include the relative tax assessment and are the result of the best estimate of the balance that must be paid after to the aforementioned Municipalities and the Comunità Montane after the order for payment resulting from the decisions taken by the Territory Authority and on the basis of the amounts communicated by the same, adjustments excluded.

With specific reference to the contributions to the Comunità Montane, these are paid on the basis of ad hoc communications by the Territory Authority.

In particular, the Local Entity Rentals refer mainly to the amounts due for 2017 as required by Territory Authority no. 3 Torinese only during the first few months of fiscal year 2018 and in amounts referring to past periods, for some of which it was requested to pay with the corresponding receivables.

Payables to SOG and Municipalities for accessory services represent the best estimate of the fees due — based on the valuation of the amounts that will be determined by the billing processes and jobs assigned — to the SOG that is charged with special service contracts for operations on their given territory.

The amount of Other Payables to Entities and Municipalities includes payables to Entities for rentals and contributions, payables for sewer and water treatment fees due to Provider Entities for the periods preceding direct assumption of the corresponding services resulting from the collection times of the fees from the users affected, as established by the current law and by specific conventional agreements.

Revenues

22. Revenues **€ 327,214,741**

Revenues are made up as follows:

		2018	2017
– Aqueduct service	€	137,805,239	140,578,968
– Sewer service	€	45,974,813	46,380,513
– Water treatment service	€	129,666,419	129,889,958
– Hydrants	€	4,290,631	4,311,629
– Other revenues	€	9,477,639	8,923,329
Total	€	327,214,741	330,084,397

Revenues have decreased by approximately Euro 2.8 million with respect to the previous fiscal year deriving from the reduction in average volumetries.

Revenues from the Aqueduct Services, sewer and water treatment are net of the 50% reduction of the rate for public municipal and provincial users for a total of Euro 5,535,423.

All the revenues inherent to corporate business were obtained in the reference territory ATO 3 Torinese, as determined by the Piemonte Regional Law no. 13 of 01/20/1997 and include the best estimate of revenues accrued in the fiscal year for aqueduct, sewers, water treatment services and hydrants provided in the 293 Municipalities acquired by effect of the reunification process.

“Other revenues” mainly consists of accessory revenues from users, the industrial aqueduct and rain water, those obtained for jobs performed on behalf of users and third parties, in particular for alterations to the water network and sewer network, revenues per analysis and treatments, water points, sale of energy and services for non-core activities performed on the free market. The increase in respect to the previous fiscal year is due to the combined effect of greater revenues for works on behalf of third parties, connected with works for the metro, and lesser revenues for treatment of leachates recorded in the revenues for sewer and water treatment in conformity with the rules set forth by ARERA for industrial waste water, pursuant to title 4 of TICS1.

23. Revenues for planning and construction activities **€ 72,243,129**

		2018	2017
– Revenues for planning and construction activities	€	72,243,129	62,140,413

This item refers to the “planning and construction” of assets under concession, which, as envisaged by IFRIC 12, is entered under revenues; the corresponding costs, net of the capitalized costs for internal increases, are entered under the entry “Costs for planning and construction”.

24. Other revenues **€ 18,398,754**

Other operating revenues are composed of as follows:

		2018	2017
– Contributions for current expenses	(A) €	2,776,214	3,455,498
– Other			
▪ Contribution shares in production facilities	€	3,112,886	2,990,323
▪ Other revenues	€	4,798,294	3,819,087
▪ Contingent assets and non-existent liabilities	€	3,635,233	5,220,619
▪ Adjustments/allocations to risk fund and other charges	€	4,076,127	723,393
	(B) €	15,622,540	12,753,422
Total other revenues (A+B)	€	18,398,754	16,208,920

“Contributions for current expenses” include the incentive for producing energy from photovoltaic sources, the incentivized rate from the Green Certificates, contributions for water points and contributions for project shareholdings.

The decrease from the previous fiscal year arises mainly from the amount for the incentivizing rate from the green certificates.

“Other” includes the accrued economic amounts of contributions in the plants account, already commented on under the entry “Multi-annual deferred income” in this Supplementary Note as well as other revenues, among which receivables lease payments, stamp reimbursements and other reimbursements), contingent gains and non-existence of liabilities except for the estimate of adjustments made to the liabilities fund, as already commented on in the Liabilities section of this Supplementary Note and includes changes for consolidation adjustments.

The comprehensive variation in this item in respect to the previous fiscal year is due to the combined effect combined effect of adjustments in the risk fund and decrease in contingent assets and non-existent liabilities.

Operating costs

25. Consumption of raw materials and consumables € 11,993,686

The item includes:

		2018	2017
– Materials for maintenance net of changes in stock	€	5,499,284	4,811,889
– Chemicals	€	4,606,450	4,490,388
– Other materials	€	2,016,829	2,186,020
– Increases for in-house jobs	€	(128,877)	(134,147)
Total	€	11,993,686	11,354,150

This item registers an increase from the previous year deriving from greater costs for maintenance materials.

26. Costs for leased assets and services € 109,203,589

The item includes:

			2018	2017
– Electricity:	(A)	€	30,946,810	29,496,020
– Maintenance, works and services & industrial	(B)	€	53,785,363	54,385,509
– General services:				
▪ Services		€	10,908,756	9,989,702
▪ Allocation to Provision for liabilities and other charges		€	819,737	1,511,115
	(C)	€	11,728,493	11,500,818
– Rentals to local entities	(D)	€	8,065,992	8,678,166
– Rentals and payable concessions, leases and hires	(E)	€	4,676,931	4,623,431
Total costs for services and leased assets (A+B+C+D+E)		€	109,203,589	108,683,944

The increase in electric power costs is due to more power supplied by the external mains network, to manage a decrease in self-production and an increase in power generation prices in respect to the previous year. As regards the consumption of electricity, bear in mind that the energy recovery technologies operating at the water treatment plants have allowed an overall 14.75% savings on consumption

The energy balance of the Parent company shows the following data:

	2018		2017	
	MWh	%	MWh	%
- Heat				
▪ Self-produced by gas engines	18,505	42.96	22,305	52.45
▪ Self-produced by boilers	450	1.04	390	0.92
▪ Self-produced by DEMOSOFC plant	143	0.33		
▪ Produced by methane	23,980	55.67	19,832	46.63
Total	43,078	100.00	42,527	100.00
- Electricity:				
▪ Self-produced by gas-powered motors	21,420	8.89	25,312	10.43
▪ Self-produced by solar cells	1,176	0.49	1,278	0.53
▪ Self-produced by DEMOSOFC plant	177	0.07		
▪ Total uptake from external suppliers	218,076	90.55	216,076	89.04
Total	240,849	100.00	242,666	100.00
Total consumption	283,926	100.00	285,193	100.00
Total recovery	41,870	14.75	49,285	17.28
- Self-produced and sold electricity (Balme hydroelectric power station)	6,777		6,463	
Total self-production	48,647		55,748	
Total self-produced electricity	29,549		33,053	
- Self-produced electricity in relation to total electricity consumed	12.27		13.62	

The variation in the item "Maintenance works and industrial services" is due to the combined effect of a reduction in maintenance services, works on behalf of third parties and an increase in costs for transport and disposal of sludge, and gas and telephone services.

27. Payroll costs

€ 62,090,930

The payroll cost composition is the following:

		2018	2017
- Wages and salaries	€	43,245,658	43,159,893
- Social charges	€	14,122,284	14,391,498
- Severance package	€	2,813,627	2,800,145
- Pension and similar funds	€	63,669	62,219
- Other costs	€	1,845,692	1,710,203
- Increases for in-house jobs	€	0	0
Total	€	62,090,930	62,123,958

Relative to the accounting period, the average staff was composed as follows:

	Top Manag- ers	Middle Managers	Office work- ers	Laborers	Apprentices	Total
Staff as of 12/31/2017	9	35	616	331	32	1023
Staff as of 12/31/2018	9	33	601	325	41	1009
Change	0	-2	-15	-6	9	-14

Relative to the accounting period, the average staff was composed as follows:

- Top Managers	9
- Middle Managers	34
- Office workers	609
- Laborers	327
- Apprentices	41

The cost recorded a slight decrease in respect to the previous year due mainly to the effects of implementation of the national labor contract, compensation policies and higher costs for outsourced personnel (for needs

related to implementation of technical quality) and transfer contracts. All of this was mitigated by savings derived from transfer of personnel.

Outsourced work contracts, 16 units as of 12/31/2017, increased in number to 36 units as of 12/31/2018 and their costs weighed on the fiscal year for a total of Euro 1,067,500.

The active transfer contract on 12.31.2017 concluded over the course of 2018 and affected the fiscal year in the amount € 38,166.

The "Other costs" item includes the allocations for miscellaneous charges for € 41,400.

28. Other operating expenses **€ 22,233,509**

The item includes:

		2018	2017
– Other tax charges	€	870,203	1,145,803
– Territory fees	€	17,594,462	16,836,660
– Other charges	€	2,827,388	2,279,424
– Allocation to provisions for liabilities and charges	€	650,567	1,404,969
– Integrated water bonus		290,889	0
Total	€	22,233,509	21,666,856

"Other tax charges" mainly includes charges for stamp fees, IMU, government concession taxes and other local taxes.

The entry "Territory fees" includes the best estimate of the contributions to the Mountain Unions and the operational costs of the Territory Authority and the contributions to the ARERA, depending on the resolutions passed and communications sent.

The Mountain Union calculated as indicated by the Territorial Authority on revenues for the year 2016 attributes the increase in this item to contributions.

The entry "Other charges" mainly refers to association dues, compensation for damages, contingent and non-existent assets including the economic accounting of the charges deriving from costs or adjustments of revenues whose accrual is attributable to previous fiscal years but which has never been considered previously because of objective unavailability of certain estimates of specific elements.

As already indicated above, the entry also includes "Allocations to provisions for liabilities and charges" to cover liabilities and costs involving taxation, administration and others, which are certain or probable but whose exact amount or date of occurrence cannot yet be determined.

Starting from the current fiscal year the item includes the cost for the "Integrated water bonus" introduced by ARERA resolution 897/2017/R/IDR and ATO resolution 697/2018, which replace the ISEE incentive used in the previous fiscal year, reducing revenues.

29. Costs for planning and construction **€ 69,670,035**

		2018	2017
– Costs for planning and construction	€	69,670,035	58,716,004

This item refers to "Costs for planning and construction" of assets under construction, net of capitalized costs for internal increases that, according to IFRIC 12, is entered under costs; the corresponding revenues are entered under the entry "Revenues for planning and construction".

30. Amortization, depreciation and write-downs**€ 68,918,791**

The composition of this entry is as follows:

		2018	2017
– Depreciation tangible fixed assets	€	16,119,466	16,158,822
– Depreciation other intangible fixed assets	€	1,485,473	1,338,636
– Depreciation assets under concession	€	40,177,233	36,287,725
– Credits write-downs	€	5,639,269	4,653,609
– Other allocations	€	5,497,350	0
Total	€	68,918,791	58,438,792

Taking into account the presentation regarding valuation criteria, and the systematic criterion, for calculating depreciation in the fiscal year, the following ordinary rates were used:

Intangible fixed assets:

– Assets under concession (improvement of third-party's assets and revertible assets)	Depending on the estimated technical economic- profit life of various types of reference assets
– Assets under concession (use rights)	As a function of the durations of the ATO3 and SMAT S.p.A. service convention (2.033)
– Software licenses of use	33.33%
– Patents	50.00%
– Expansion and development costs	20.00%
– Trademarks	10 years
– Surface rights	As a function of the estimated profit life equivalent to the durations of the Company from the date of the Articles of Association

Tangible fixed assets:

– Buildings and fences	3.50%
– Solar power plants	9.00%
– Light constructions	10.00%
– Specific plants and filtering plants	8.00%
– Metering devices	10.00%
– Laboratory and other equipment	10.00%
– Furniture and furnishings	12.00%
– Office equipments	12.00%
• Electronic machinery	20.00%
• Hardware	20.00%
• Cars	25.00%
• Motor vehicles for transport and other vehicles	20.00%
• Carbon assets	20.00%
• Polarite	11.00%
– Tanks	4.00%
– Fixed waterworks	2.50%
– Sewers	5.00%
– Water treatment plants	15.00%
– Machinery	12.00%

To the Increases of 2018 of tangible fixed assets the rates applied amount to 50% of those shown above, representing the best estimate average rates as a function of the months of use.

The entry also includes the allocations deriving from prudential valuations of the commercial receivables. This allocation amounts to approximately 5.6 million Euros, with application of the new IFRS 9 principle - Financial instruments and consequence of length of receivables towards users as already referenced in the dedicated item under Assets in this Supplementary Note.

The item "Other allocations" reports the depreciation of shares in the partner SAP S.p.A., in consideration of the results of the SAP Group. The management depreciated for permanent impairment of value the aforesaid share by Euro 5.5 million to align its value to the pro-rata of the Consolidated Net Equity of the SAP Group S.p.A. This depreciation is confirmed by the impairment test carried out by an independent consultant.

Financial income and expenses

31. Financial income € 5,538,219

The item includes:

		2018	2017
– Receivable interest and other proceeds	€	5,538,219	5,437,544
Total	€	5,538,219	5,437,544

“Receivable interests and other financial proceeds” include receivable interest on current accounts in banks and post offices, interest arrears and other financial proceeds and dividends from other companies.

32. Financial expenses € 5,275,050

The item includes:

		2018	2017
– Payable interest and commissions on loans	€	4,974,574	4,666,187
– Other receivable interests and charges	€	300,476	373,128
– Write-down shareholdings	€	0	1,760,122
Total	€	5,275,050	6,799,437

Payable interest and commissions on loans include the charges on loans received in as investments and then purchases, in addition to the amount pertaining to interest on the debenture loan. The entry also includes adjustment of the charges as a function of the amortized cost method.

The Other payable interests and charges include, on the other hand, the prudential count of interest on arrears for overdue debts (according to current law) and financial charges deriving from the actuarial valuation of the Severance Fund and other benefits to employees according to IAS 19.

33. Income taxes € 22,045,787

The item includes:

		2018	2017
– IRAP	€	3,579,428	3,970,160
– IRES	€	18,722,597	21,479,085
– Taxes relative to previous fiscal year	€	(115,373)	836,290
– Change in payable deferred taxes	€	(3,964)	(232,778)
– Change in receivable deferred taxes	€	(136,901)	(440,587)
Total	€	22,045,787	25,612,170

In the scope of current taxes, IRES decreased following a decrease in the gross tax amount, as well as in the relative base taxable income. The fiscal variation on profit before taxes produced the same effects as in the previous tax period (specifically, there is a slight increase in nondeductible costs for the fiscal year). The reduction in IRAP in respect to the previous fiscal year is due to the lesser result gross of taxes.

The taxes relative to the previous fiscal year (lesser taxes) are mainly referred to the additional Financial Statements SC 2017 and IRAP 2017, from which the increased deductible costs in respect to the previous transmission emerged.

Other information

Below is the information regarding the commitments undertaken by the Company (I), to determine “Fair value” (II), to manage financial risks (III), to fees to the Directors and Auditors (IV), to the fees paid to the Auditing Firm (V), to the relationships with related parties (VI) and to the significant events occurring after December 31st 2018 (VII).

I. Commitments undertaken by the Group

The Company issued, equally to IRETI S.p.A., letter of commitment to financial support of Acque Potabili S.p.A. for Euro 2.5 million amount with validity until 12/31/2019.

II. Determination of the “fair value”: supplementary information

Concerning the valuation at fair value of the financial instruments in conformity with the requirements of IFRS7, we specify the following:

Assets

– Non-current financial assets – receivables:	Book value in financial statement is the “fair value” of the same
– Cash and cash equivalents:	Book value in financial statement is the “fair value” of the same
– Shareholdings available for sale:	Book value in financial statement is the “fair value” of the same

Liabilities

– Loans at variable rate:	Book value in financial statement is the “fair value” of the same
– Commercial payables:	Book value in financial statement is the “fair value” of the same

III. Management of financial risks

In conformity with the aforesaid IFRS 7, we specify that SMAT S.p.A., in the ordinary development of own operating assets, is potentially exposed to financial liabilities already commented on in the Directors’ Report.

IV. Fees to Directors and Auditors

Below is the itemization of fees to the Directors and Auditors of SMAT Torino S.p.A.: for the financial statements closed as of December 31st 2018 and 2017.

		2018	2017
Directors	€	290,999	243,168
Auditors	€	124,904	105,939

The fees correspond to the amounts deliberated by the Shareholder Meetings and the obligatory contribution.

V. Fees to the Auditing Firm

The fees due to the auditing firm Deloitte & Touche S.p.A. for the accounting audit services financial statement and consolidated as of December 31st 2018 amounting to Euro 82,000 and Euro 2,000 for other complementary services, mainly referring to activities carried out with reference to the offer of bonds on the market.

VI. Operations with related parties

The relations between the companies of the Group are regulated at market conditions. The relations between SMAT Torino S.p.A. and its subsidiaries and associates, and among these companies, are mainly of a business and financial nature.

Below is the itemization of the capital and economic balances inherent to operations with related parties for the fiscal year concluded on December 31st 2018.

	Fiscal year 2018					
	Total revenues	Total operating costs	Financial proceeds	Receivables receivables and current other assets	Debts payables and current other liabilities	Current financial assets
CITY OF TURIN	4,074,383	1,759,413	-	3,655,770	1,249,214	-
SAP SPA formerly SVILUPPO IDRICO	64,023	-	-	52,323	15,591	-
ACQUEDOTTO MONFERRATO	5,002	-	-	5,002	-	-
Total related parties	4,131,708	1,759,413	-	3,713,095	1,264,805	-
Total balance position	417,856,624	275,191,749	5,538,219	247,497,677	156,493,161	-
Weight % on total balance position	0.99%	0.64%	0.00%	1.50%	0.81%	0.00%

VII. Contributions pursuant to Law 4 August 2017 no. 124, art. 1, section 125

Over the course of the fiscal year now concluding, SMAT collected the following contributions from Public Administrations, net of contributions for private hook-ups collected from users.

Date collected	Dispensing subject	Memo	Amount	Contribution c/fiscal year	Contributions c/Systems
3/15/2018	CITY OF TURIN	RESOLUTION OF INTERFERENCE INHERENT TO WORKS ON THE ROADWAY PROJECT "G2 CIRCONVALLAZIONE VENARIA-BORGARO" LOT I AND LOT II	750,854	-	750,854
7/10/2018	CITY OF TURIN	RESOLUTION OF INTERFERENCE INHERENT TO WORKS ON THE ROADWAY PROJECT "G2 CIRCONVALLAZIONE VENARIA-BORGARO" LOT I AND LOT II	555,496	-	555,496
5/2/2018	CITY OF CARIGNANO	AUTUMN FLOOD 2000 – THIRD AND FOURTH TRANSITIONAL PLAN - PURIFICATION AND SEWER SYSTEM WORKS	396,648	-	396,648
2/28/2018	CITY OF CASELLE TORINESE	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
11/8/2018	CITY OF PEROSA CANAVESE	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/2/2018	CITY OF RIVAROSSA	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/27/2018	CITY OF RIVOLI	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/27/2018	CITY OF RIVOLI	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/27/2018	CITY OF RIVOLI	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	500	500	
2/5/2018	CITY OF SAN FRANCESCO AL CAMPO	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/27/2018	CITY OF SETTIMO TORINESE	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
5/16/2018	CITY OF TURIN	LEBANON - SAFE HEALTH AND WATER MANAGEMENT LEBANON	21,000	21,000	
7/27/2018	CITY OF TRANA	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/5/2018	CITY OF VILLAFRANCA PIEMONTE	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	1,000	1,000	
10/11/2018	CITY OF VILLASTELLONE	CONSTRUCTION OF SEPARATE SEWER SYSTEM ON VIALE SIGNORINI	74,998	-	74,998
4/18/2018	FONSERVIZI	TRAINING PROGRAM "SAFE AND RESPONSIBLE BUSINESS"	18,042	18,042	

Date collected	Dispensing subject	Memo	Amount	Contribution c/fiscal year	Contributions c/Systems
6/12/2018	FONSERVIZI	TRAINING PROGRAM "COMPUTING SECURITY AND CORPORATE MANAGEMENT"	33,240	33,240	
1/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
2/28/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
3/29/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION BALME	228,862	228,862	
3/29/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
4/30/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
5/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
6/28/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION BALME	110,667	110,667	
7/2/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
7/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
8/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
9/28/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION BALME	57,757	57,757	
10/1/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	17,983	17,983	
10/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION ROSTA	4,209	4,209	
10/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	17,983	17,983	
11/30/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	32,091	32,091	
11/30/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	17,983	17,983	
11/30/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	1,162	1,162	
11/30/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION ROSTA	29,244	29,244	
12/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	3,242,875	3,242,875	
12/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION BALME	169,122	169,122	
12/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	688,444	688,444	
12/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION ROSTA	934	934	
12/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	24,862	24,862	
5/16/2018	TURIN POLYTECHNIC INSTITUTE*	DEMOSOFC - SYSTEM WITH FUELS CELLS SUPPLIED WITH BIOGAS	166,062	-	166,062
2/7/2018	UNIVERSITY OF PAVIA	PERSEO - PERSONAL RADIATION SHIELDING FOR INTERPLANETARY MISSIONS	8,693	8,693	
5/30/2018	UNIVERSITY OF PAVIA	PERSEO - PERSONAL RADIATION SHIELDING FOR INTERPLANETARY MISSIONS	4,668	4,668	
2/28/2018	UNIVERSITY OF TURIN	AQUALITY - STUDY ON ADVANCED OXIDATION PROCESSES FOR EMERGING POLLUTANTS	130,984	130,984	
Total			7,034,487	5,090,430	1,944,058

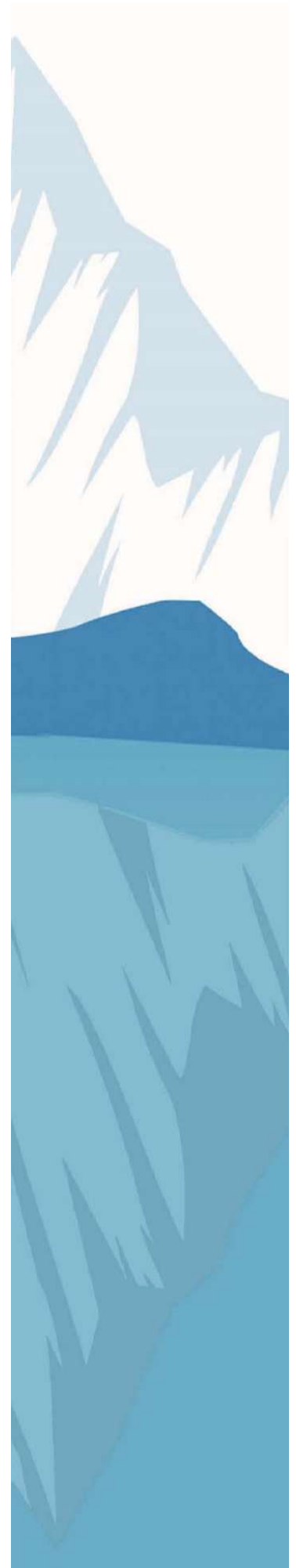
*The Turin Polytechnic Institute fills the role of coordinator for the project DEMOSOFC financed by the European Union as part of the Horizon 2020 program initiated on 1 September 2015, which foresees partnering with five Italian and European members, including SMAT and the subsidiary Risorse Idriche S.p.A. in the role of "Linked Third Party", which in 2018 collected Euro 120.060.

VIII. Significant events occurring after December 31st 2018

Significant events occurring after 12/31/2018, are itemized in the dedicated section of the Directors' Report.

FINANCIAL STATEMENTS SMAT S.P.A.

IAS/IFRS FRAMEWORKS
SUPPLEMENTARY NOTES



STATEMENT OF FINANCIAL POSITION

Euro	Remarks	12/31/2018	12/31/2017
ASSETS			
Non-current assets			
Tangible fixed assets	1	169,161,815	168,968,380
Goodwill	2	5,928,005	5,928,005
Other intangible assets	3	3,562,231	3,579,331
Concessions	4	611,111,310	579,570,400
Investments	5	14,120,845	19,620,845
Deferred tax assets	6	15,232,705	15,077,587
Non-current financial assets	7	985,029	907,087
Other non-current assets		0	0
Total non-current assets		820,101,940	793,651,635
Current assets			
Inventory	8	7,601,363	7,415,403
Trade and other receivables	9	245,371,326	269,346,484
Current tax assets	10	6,293,978	7,995,743
Current financial assets	11	2,565,589	1,487,057
Other current assets	12	3,793,692	6,855,712
Cash and cash equivalents	13	119,811,450	131,587,185
Total current assets		385,437,398	424,687,584
Assets intended for sale		0	0
TOTAL ASSETS		1,205,539,338	1,218,339,219

STATEMENT OF FINANCIAL POSITION

<i>Euro</i>	Remarks	12/31/2018	12/31/2017
NET EQUITY AND LIABILITIES			
NET EQUITY			
Share capital		345,533,762	345,533,762
Legal reserve		18,319,415	15,298,020
Reserve restricted for PEF implementation		199,509,171	153,583,962
FTA reserve		(2,677,452)	(2,677,452)
Other reserves and retained earnings		3,493,168	5,806,911
Profit for the year		51,796,714	60,427,907
TOTAL NET EQUITY	14	615,974,778	577,973,110
LIABILITIES			
Non-current liabilities			
Non-current financial payables	15	282,702,625	331,444,828
Provisions for employee benefits	16	15,614,375	17,292,133
Provisions for risks	17	22,984,928	26,586,617
Deferred tax liabilities	18	337,834	341,798
Other non-current liabilities	19	50,620,545	52,303,449
Total non-current liabilities		372,260,307	427,968,825
Current liabilities			
Current financial liabilities	15	51,105,158	51,082,945
Commercial payables	20	90,399,314	84,409,472
Current tax liabilities	21	3,780,787	7,948,737
Other current liabilities	22	72,018,994	68,956,130
Other current financial liabilities		0	0
Total current liabilities		217,304,253	212,397,284
Liabilities intended for sale		0	0
TOTAL LIABILITIES		589,564,560	640,366,109
TOTAL NET EQUITY AND LIABILITIES		1,205,539,338	1,218,339,219

INCOME STATEMENT

	Remarks	2018	2017
REVENUES			
Revenues	23	327,179,680	330,151,739
Revenues for planning and construction activities	24	72,243,129	62,140,413
Other revenues	25	15,479,665	14,043,602
Total revenues		414,902,474	406,335,754
COSTS			
Consumption of raw materials and consumables	26	11,884,918	11,246,678
Costs for leased assets and services	27	109,059,965	109,139,497
Payroll costs	28	59,998,633	60,025,167
Other operating expenses	29	21,978,257	21,611,249
Costs for planning and construction activities	30	69,670,035	58,716,004
Total operating costs		272,591,808	260,738,595
Gross operating margin		142,310,666	145,597,159
Amortization, provisions and write-downs	31	(68,905,639)	(58,421,566)
Operating income (EBIT)		73,405,027	87,175,593
Financial income	32	5,601,346	5,616,482
Financial expense	33	(5,258,196)	(6,822,649)
Total financial management		343,150	(1,206,167)
Result before taxes		73,748,177	85,969,426
Income Taxes	34	(21,951,463)	(25,541,519)
PROFIT (LOSS) FOR THE YEAR		51,796,714	60,427,907

COMPREHENSIVE INCOME STATEMENT

Remarks	2018	2017
A. Profit for the year	51,796,714	60,427,907
Current profit (loss) on Severance Fund	556,127	(37,254)
Tax effect on Profit /(loss) that will not be subsequently reclassified in the Income Statement	0	0
B. Profits/(losses) entered directly under Net Equity and that will later be reclassified in the Income Statement	556,127	(37,254)
Amount of other profits/(losses) of enterprises valuated with the Net Equity method	0	0
Fiscal effect on profits/(losses) that will later be subsequently reclassified on the Income Statement when certain conditions will be met	0	0
C. Profits/(losses) entered directly under Net Equity that will not later be reclassified in the Income Statement	0	0
D. Total profit for the year (A + B + C)	52,352,841	60,390,653

CASH-FLOW STATEMENT FOR THE FISCAL YEAR

Euro	Re- marks	2018	2017
A. Financial flows of operating assets		132,387,547	81,267,286
Net Profit (loss) for the year		51,796,714	60,427,907
Adjustments for non-monetary costs and revenues			
Amortization of intangible assets		1,484,898	1,338,050
Depreciation of tangible assets		16,104,239	16,142,182
Depreciation of assets under concession		40,177,233	36,287,725
Change in provisions for liabilities and charges		(3,601,689)	1,705,906
Change in provisions for benefits to employees		(1,677,758)	(632,606)
Change in advance deferred taxes		(159,082)	(685,031)
Change in other non current assets/liabilities		(1,760,846)	(416,964)
Change in Net Equity reserves			
Difference in conversion		0	0
Actuarial profit and loss		0	0
Other movements		(2,335,369)	(5,230,193)
Change in net working capital			
(Increase)/Decrease in trade receivables		23,975,158	(27,139,440)
(Increase)/Decrease in other assets		3,685,253	1,139,763
(Increase)/Decrease in inventory		(185,960)	(1,028,445)
Increase/(Decrease) in trade payables		5,989,842	(712,239)
Increase/(Decrease) in other liabilities		(1,105,086)	70,671
B. Financial flows of investment assets		(83,983,615)	(78,715,698)
Disinvestments /(investments) of intangible fixed assets		(1,467,798)	(1,836,660)
Disinvestments /(investments) of tangible fixed assets		(16,297,674)	(16,484,142)
Disinvestments /(investments) of assets under concession		(71,718,143)	(62,194,896)
Changes in the investments		5,500,000	1,800,000
Change in area of consolidation			
C. Financial flows of financial assets		(60,179,667)	74,919,096
Takings from the issue of share capital		0	0
(Purchase)/Assignment of shareholdings		0	0
Change of the financial payables		(48,686,440)	85,050,158
Other changes in financial liabilities		(33,550)	1,542,088
(Dividends paid)		(11,459,677)	(11,673,150)
D. Net flow generated by the management (A ± B ± C)		(11,775,735)	77,470,684
E. Initial liquid assets		131,587,185	54,116,501
F. Final liquid assets (D ± E)		119,811,450	131,587,185

CHANGES IN NET EQUITY

(Units in Euro)	12/31/2016	Allocation of result	Distribution of dividends	Other movements	Profit for the year	12/31/2017
Share capital	345,533,762					345,533,762
Legal reserve	12,220,577	3,077,443				15,298,020
Reserve restricted for PEF implementation	106,806,840	46,777,122				153,583,962
FTA reserve	(2,677,452)			0		(2,677,452)
Other reserves and retained earnings:						
• <i>Optional reserve</i>	34,342,562			0		34,342,562
• <i>Severance actualization reserve</i>	272,309				(37,254)	235,055
• <i>Negative reserve for own shares in portfolio</i>	(24,908,904)			(5,192,940)		(30,101,844)
• <i>Reserve for rounding up units</i>	(5)			1		(4)
• <i>Retained earnings</i>	1,310,012	11,694,280	(11,673,150)	0		1,331,142
Total other reserves and retained earnings	11,015,974	11,694,280	(11,673,150)	(5,192,939)	(37,254)	5,806,911
Profit for the year	61,548,845	(61,548,845)			60,427,907	60,427,907
TOTAL NET EQUITY	534,448,546	0	(11,673,150)	(5,192,939)	60,390,653	577,973,110

(Units in Euro)	12/31/2017	Allocation of result	Distribution of dividends	Other movements	Result for the year	12/31/2018
Share capital	345,533,762					345,533,762
Legal reserve	15,298,020	3,021,395				18,319,415
Reserve restricted for PEF implementation	153,583,962	45,925,209				199,509,171
FTA reserve	(2,677,452)			0		(2,677,452)
Other reserves and retained earnings:						
• <i>Optional reserve</i>	34,342,562			0		34,342,562
• <i>Severance actualization reserve</i>	235,055			0	556,127	791,182
• <i>Negative reserve for own shares in portfolio</i>	(30,101,844)			(2,891,496)		(32,993,340)
• <i>Reserve for rounding up units</i>	(4)			0		(4)
• <i>Retained earnings</i>	1,331,142	11,481,303	(11,459,677)	0		1,352,768
Total other reserves and retained earnings	5,806,911	11,481,303	(11,459,677)	(2,891,496)	556,127	3,493,168
Result for the year	60,427,907	(60,427,907)			51,796,714	51,796,714
TOTAL NET EQUITY	577,973,110	0	(11,459,677)	(2,891,496)	52,352,841	615,974,778

Application of IAS/IFRS and its effects

European (CE) Regulations no. 1606/2002 of July 19th 2002 introduced the obligation, starting from fiscal year 2005, to apply the International Financial Reporting Standards ("IFRS"), as amended by the International Accounting Standards Board ("IASB"), and adopted by the European Union ("IFRS" or "International Accounting Principles") for the drafting of balance sheets of companies holding capital and/or debt shares quoted in one of the markets regulated by the European Community. On April 13th 2017, SMAT issued a bond loan for a rated amount of Euro 135 million subscribed by institutional investors and listed it on the Irish Stock Exchange. In compliance with the aforementioned legislative provisions, SMAT must draft the consolidated and fiscal year financial statement in compliance with the IFRS starting from the fiscal year closed on December 31st 2016.

The data of transition to IFRS (The "Transition Date") was therefore been identified as January 1st 2015. The Company had already prepared the financial statements for the fiscal years closed as of December 31st 2015 and 2014 in compliance with the accounting principles issued by the Associated Chartered Accountants, amended by the Italian Accounting Principles.

This statement of account is therefore drafted in compliance with the IFRS in force on the date of its approval. IFRS means the new International Financial Reporting Standards, the reviewed international accounting principles ("IAS"), all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC"), certified and adopted by the European Union.

The Financial Statements schedules and the accounting information reported in the Supplementary Note comply with the book entries they directly derive from. The IFRS were applied in coherence to all the periods presented in this document.

The statement of account prospectus, as provided for in art. 2423-ter of the Civil Code reports by appropriate comparison the indication of the previous year values. Where required, data from the previous fiscal year have been suitably adapted in order to ensure an appropriate comparison.

This Financial Statement was prepared according to the perspective of corporate continuity and based on the contractual criteria of the historical cost, with the exception of some book entries, which are calculated at fair value, in compliance with the provisions of the International Accounting Principles.

Structure and contents of the financial statement

The diagram used for the financial statement is in scale with the different items analyzed according to their type. We believe this presentation, which is aligned with international procedure, is the one that best represents the company results. The comprehensive Financial Statement is presented, as allowed by the revised IAS 1, in a document separate from net equity, and distinguishes between the components that can be reclassified in the Financial Statement and those that cannot. The other components of the comprehensive Financial Statement are highlighted separately, also in the schedule of the net equity variations. The diagram of the equity and financial positions highlights the separation between the current and non-current assets and liabilities. The financial reporting is drafted according to the indirect method, as allowed by IAS7.

The statement of accounts diagrams report separately any costs and revenues of non-recurrent nature.

The general principle adopted in drafting this financial statement is based on cost, with the exception of the financial assets and liabilities (including the derivative instruments), which are assessed at fair value. The preparation of the balance sheet required the use of estimates by the management; the main areas characterized by particularly significant assessments and assumptions, together with those that have remarkable effects on the situations presented, are reported in section "Use of Estimates". All the accounting prospects of the equity and financial situations and of the Financial Statement are expressed in Euros, whilst the data entered in the explanatory comments are expressed in thousands of Euros, except when otherwise indicated.

Valuation criteria

The valuation of the financial sheet items was drawn up based on the general criteria of prudence and accrual, in the prospect of continuation of the business. For the purposes of accounting determinations, priority is given to the economic substance of operations rather than to the legal status.

As regards the economic aspect, the costs and revenues shown include the figures of the end of the year that match the contra items in the financial situation. In relation to this, profits are included only if realized by the date of closure in the fiscal year, while the risks and losses were taken into account even if known after that date.

Tangible fixed assets

The tangible assets are identified at the purchase or production cost, including the accessory charges, or at the value based on appraisals of the company equity, in case of acquisitions of companies, net of the relevant depreciation fund and any losses of value. The production cost included the direct and indirect costs for the share that can be reasonably ascribed to the assets (e.g.: personnel costs, transport, customs duties, expenses for the preparation of the area of installation, testing costs, notary and land registry expenses). The cost includes any professional fees and, for some goods, the financial charges capitalized up to the moment when the item is placed in service. The cost includes any cost for site reclaiming, on which the tangible asset is based, in compliance with the provisions of IAS 37.

The expenses for ordinary maintenance are fully charged to the Financial Statement. The costs for improvements, modernization and transformation of an incremental nature are attributed to the capital assets.

The accounting value of tangible assets is submitted to verification to identify any losses of value, in particular when events or changes of condition identify that the charged value cannot be recovered.

The tangible assets are reported gross to the system revenue contribution which are identified in the profit and loss account throughout the period of time required to related them to the relevant costs; they are represented in the equity and financial status reporting as differed revenue.

The depreciation starts when the assets enter the production cycle and - for new acquisitions – is calculated at 50% of the full rate, since it is considered as representative of the actual use of the goods. The current assets include the costs relevant to intangible assets whose economic utilization process has not started yet. The tangible assets are systematically depreciated every fiscal year based on economic and technical rates that are considered as representative of the residual potential of use of the assets. Tables with the depreciation rates taken into account for the depreciation of the assets are reported herein.

As required by IAS 16, the estimated useful lifespan of the tangible assets are reviewed every fiscal year, in order to assess the need of revision. If it is ascertained that the estimated useful lifespans do not appropriately represent the future expected benefits, the relevant depreciation plans must be redefined based on the new assumptions. These changes are reported in a prospectus to the Financial Statement.

During the concluded fiscal year, no change was entered under the depreciation plans for any of the categories of tangible assets.

The land is not depreciated.

The profits or losses that derive from the alienation or dismissals of a tangible asset are identified as the difference between the sale revenue and the net accounting value of the asset and they are identified in the Financial Statement at the moment the buyer is transferred the risks and benefits connected to the ownership of said asset.

Goodwill and other Intangible fixed assets

The identifiable controllable intangible assets are identified in the accounting; their cost can be reliably determined provided that these activities generate economic benefits in the future. Such assets are identified at cost value in compliance with the criteria indicated for the tangible assets and - if their useful lifespan is defined - they are depreciated throughout the period of the estimated lifespan. The depreciation starts at the moment the asset is ready for use, or nevertheless when it starts producing economic benefits for the business. The current assets include the costs relevant to intangible assets for which the economic utilization process has not started yet.

The intangible assets with defined useful lifespan are systematically depreciated starting from when the asset is available for use throughout the period of expected usefulness. The goodwill and the other activities whose

useful lifespan is not defined are not subject to systematic depreciation, but they are subject to yearly verifications of recoverability (the so-called impairment test) conducted at the level of the individual Cash Generating Unit (CGU) or groups of CGU's whose indefinite useful lifespan assets can be reasonably allocated. The test is described hereinafter in "Reduction of the value of the assets". Any write-down ascribed to goodwill cannot be subject to subsequent return to default values.

The intangible assets identified as a result of an aggregation of companies are reported separately from the goodwill, if their fair value is reliably determined.

The profits or losses that derive from the alienation of an intangible asset are identified as the difference between the dismissal value and the loading value of the asset, and identified in the Financial Statement at the moment the risks and benefits connected to the ownership of said asset are transferred to the buyer.

Assets under concession

The concessions mainly consist of rights relevant to networks, systems and other equipment relevant to the Integrated Water Service given under license to SMAT Spa and which are functional to the management of this service. These licenses are classified in a specifically allocated item according to the interpretation IFRIC 12 – Service Concession Arrangements. As far as depreciation is concerned, IFRIC provides that the latter is calculated on the basis of what is stated in the agreement and - in particular - in a constant measure for the shorter period of time between the technical and economic lift of the assets given in license and the duration of the license itself, until the takeover value provided for in the license agreement is achieved.

In particular, the value of the right of use of the public assets of the waterworks of the City of Turin and of C.I.A.C.T., which are defined in compliance with the expert appraisal of transfer, have been reported in this Financial Statements on the basis of the duration of the relevant agreement deed extended by Territory Authority Torinese n. 3. The depreciation of the improvements made to aforesaid assets after the transfer date were determined based on the estimated economic and technical useful lifespan. The depreciation on the improvements made to the well systems entrusted in direct management to the Company were determined with reference to the estimated economic and technical useful lifespan of the improvements made.

The extension of the waterworks system of the City of Turin, received under a license agreement according to the previously established license contract by the City of Turin to AAM Torino S.p.A. (now liquidated) to be devolved free of charge at the end of the license was depreciated on the basis of the estimated economic and technical lifespan of said extension.

The extension includes the rights on networks, systems and other equipment relevant to the Integrated Water Service and connected to services managed by SMAT S.p.A. The implementation of IFRIC 12 required the application of IAS 11 to the same infrastructures, since, if the licensee builds or upgrades an infrastructure it does not control, the relevant services of building and upgrading developed on behalf of the licensor are considered as actual activities developed against the purchase order. Since most of the activities are sub-contracted and the margin of benefit acknowledged in the remuneration of the service rate cannot be identified separately on the building activities that were developed in-house, these infrastructures are identified based on actually sustained costs.

Shareholdings

Investments in subsidiaries and partner companies are identified at cost, adjusted in case of losses of value to adapt it to the relevant recoverable value, in compliance with the provisions of IAS 36 – Reduction of the asset value. When the losses no longer exist or are reduced, the accounting value is incremented up to the new estimate of the recoverable values, which cannot in any case exceed the original cost. The restored value is entered under the Financial Statement.

Shares in other companies are valued at fair value in accordance with the other components in the comprehensive financial statement. Shares held exclusively for the purpose of subsequent alienation are excluded from this approach, and their fair value is inserted in the profits (losses) of the fiscal year. The risk deriving from any losses exceeding accounting value of the shareholding is identified in a dedicated fund insofar as the parent company is committed to comply with the legal obligations or those that are implicit to the subsidiary, or in any case to cover its losses.

To ensure the correctness of the recorded value, the shares in partner companies and other companies were subjected to the impairment test. Operationally, for the purpose of this test, the accounted value of reference for these shares was determined and then compared with the recoverable value identified through valuation performed by an external independent expert.

If the Company's portion of the losses in the subsidiary exceeds the accounting value of the share, the value of the share is zeroed and the portion of any further losses is identified as a liability fund in case the Company is obliged to respond to it.

The dividends received are recognized in the Financial Statement once the right to receive the relevant payment is established. If the related company has distributed dividends, also the following aspects are considered as potential indicators of loss of value:

- The reported value of the share in the balance sheet exceeds the accounting value in the consolidated balance sheet of the net assets of the related company, including the relevant goodwill;
- The dividend exceeds the overall value of the profit and loss account in the period of time the dividend refers to.

The financial assets the Company intends to hold until expiry are reported at the cost represented by the fair value of the initial amount given in exchange, incremented by the transaction cost. As a result of the initial identification, the financial assets are assessed through the criteria of depreciated cost, using the method based on the actual interest rate.

Non-current financial assets

This category includes those assets that are not represented by derivative instruments and are not quoted in an active market, of which fixed or identifiable payments are expected. These assets are assessed at the depreciated cost based on the actual interest rate method. If there is objective evidence of the value loss indicators, the value of the assets is reduced in such a measure to result equal to the discounted value of the flows that can be obtained in the future: the losses of value determined through the impairment test are reported in the Financial Statement. If the reasons for the previous write-downs subsequently no longer exist, the value of the assets is restored until it reaches the value that would derive from the application of the depreciated cost if the impairment had not been performed. These assets are classified as current assets, except the shares whose expiry is greater than 12 months, which are included among the non-current assets.

Inventory

Stock is assessed at the lowest value between the average weighed cost for the movement and the corresponding market value, to reflect any situations with technical obsolescence or low turnover, and then reported in the dedicated devaluation fund taken to direct reduction of the stocks to return the cost of expected realizable value.

Trade receivables

This item refers to assets deriving from the commercial relations of supply of goods and services, which are assessed at the depreciated cost adjusted for losses of value compared to the degree of the risk of non-collection.

Financial assets and other current assets

These are entered at their nominal value - adjusted for losses of value if required - corresponding to the depreciated cost.

Cash and cash equivalents

Liquidity includes the cash on hand, also in the form of checks, and on demand bank deposits. The equivalent means consist of financial investments with a three-month expiry or less (from the date of their acquisition), which can be promptly converted into liquidity and with an insignificant risk of variation in their value. These items are calculated at fair value; profits or losses deriving from any changes in the fair value are reported in the Financial Statement.

Own shares

Own shares are entered as a reduction of the Net Equity. The counter value deriving from their release is also reported with net equity counterpart, with no computing into the Financial Statement.

Provisions for liabilities and charges, employee benefits

The provisions for contingencies and charges concern charges of a specific nature, certain or probable, which on the balance sheet closure date are of an undetermined amount or lifespan. The allocations are identified when: (i) the existence of a current, legal or implicit obligation deriving from a past event, is likely; (ii) the

compliance with subject obligation is likely to be burdensome; (iii) the amount of the obligation can be reliably estimated.

The allocations to the funds represent the best estimate of the costs required for compliance at the date of the balance sheet (assuming there are sufficient elements to run this estimate) and they are actualized when the effect is significant, and the required information is available. In such cases, the allocations are determined by actualizing the future cash flows at a discount rate before taxes that reflects the current market assessment and takes into account the risks connected to the company business. When the actualization is performed, the increment of the provisions due to time is reported in the financial charges. If the liabilities are due to material activities (e.g.: revamping of sites) the fund is reported in counterpart to the activity it refers to and the charge is itemized in the Financial Statement through the depreciation of the tangible asset that the charge refers to. For the redefinition of liabilities, the methods provided for by IFRIC 1 are applied.

The explanatory notes also illustrate potential liabilities represented by: (i) potential - though not likely - obligations deriving from past events, whose existence is only confirmed upon occurrence of one or more uncertain future events not under the full control of the Company; (ii) current obligations deriving from past events, whose amount cannot be reliably estimated or whose compliance is likely not to be onerous.

Benefits to the employees (Severance pay)

The liabilities relevant to the defined benefit programs (such as the Severance pay for the amount accrued before January 1st 2007 and the other benefits for the employees) are defined net of any activities at the service of the plan, on the basis of current assumptions and by competences, consistently with the working performance required to obtain these benefits; the assessment of the liabilities is performed with the support of independent actuaries. The value of the current profits and losses is reported into the other components of the total Financial Statement. Based on the Financial Law of December 27th 2006 no. 296, for companies having more than 50 employees, as related to shares accrued starting from January 1st 2007, Severance Pay is configured as a plan with defined contributions.

Trade payables

These refer to financial liabilities deriving from commercial relationships of supply and they are calculated at the depreciated cost.

Other liabilities

Other liabilities refer to various types of relationships and they are entered at nominal value, corresponding to the depreciated cost.

The item includes current includes the "bound revenues" share" (FoNI ex art. 42 Annex "A" to AEEG Resolution no. 585/2012) determined by Territory Authority Torinese no. 3 with resolution no. 483/2013 and reported to fiscal year 2012.

Costs and revenues

Costs and revenues are entered net of the adjustments, i.e. returns, discounts, reductions and any changes of estimates, and they are calculated in compliance with the principals of prudence and accrual. In particular, as far as the revenues are concerned.

In particular, as far as the revenues are concerned:

- The revenues for service performance are acknowledged at the date the performance is completed;
- Revenues for the sale of water acknowledged and counted at the time of delivery, including the allocation for deliveries made, but not yet invoiced (estimated according to historical analysis determined in relation to past consumption);
- the revenues for the sale of products are recognized at the moment of the ownership takeover, which generally corresponds to the delivery or shipment of the goods.

The costs are accounted for according to the accrual principle.

Contributions for Plants

Contributions for plants are reported in the accounts once there is the justification documentation of the imminent collection by the paying entity. These concur to form the result of the fiscal year according to the rules of economic accrual, determined as related to the residual economic and technical lifespan of the assets they refer to.

Financial income and expenses

Financial proceeds and charges are calculated according to the accrual principle. The dividends of other companies are recorded in the Financial Statement at the moment in which the right to receive payment has been established.

Income taxes for the year

Income tax for the year consists of the sum of current and deferred taxes. Income tax is based on profit for the year before taxes. Profit before taxes differs from the result entered in the Financial Statement since it excludes positive and negative components that will be taxable or deductible in other fiscal years and - furthermore - it excludes items that will never be taxable or deductible. "Liabilities for current taxes" are calculated using the rates in force as of the date of the Financial Statements. In determining the income taxes, the Company took into due consideration the effects deriving from the last fiscal reform introduced by Law no. 244 of December 24th 2007 and - in particular - the reinforced principle of derivation established by art. 83 of TUIR, which requires the entity applying the international accounting principles to apply, even in exceptions to the provisions of the TUIR, "the criteria of qualification, temporary computing and classification of the Financial Statements according to said accounting principles".

Deferred taxes are calculated as related to the temporary differences in the taxation and are entered under "Deferred tax liabilities". Deferred tax credits are calculated to the extent in which, in the fiscal years during which the relevant temporary differences will spill over, the existence of a taxable income at least equal to the amount of the differences which will be annulled is deemed probable. The deferred and anticipated taxes are determined on the basis of the tax rates expected to be applicable in the fiscal year in which the tax credit will be realized or the tax debt will be extinguished, on the basis of the tax rates defined by measures in force or substantially in force as of the reference date of the financial statement. These changes are entered either under the Financial Statement or under net equity, as related to the computing made at the origin of the reference difference.

Impairment test

The accounting values of the Company assets are assessed at every reference date of reference of the balance sheet to determine whether there are indications of impairment, in which case the estimate of the recoverable value of the asset is calculated. A loss by value reduction (impairment) is recorded in the Financial Statement when the accounting value of an asset or of a unit that generates financial flows exceeds the recoverable value.

The recoverable value of the non-financial activities corresponds to the greatest value between their "fair value" net to the sale cost and the value in present use. To determine the value in present use, the estimated future financial flows are actualized using a discount rate that reflects the market assessment of the money value and of the risks related to the type of activity. For activities that do not generate financial flows in input, that are widely independent, the recoverable value of the unit that generates financial flows to which the asset belongs is calculated.

When, subsequently, a loss on assets other than goodwill and other assets of indefinite useful lifespan, no longer exists or is reduced, the accounting value of the asset and of the asset that generates financial flows is increased until the new estimate of the recoverable value is calculated, which cannot exceed the value that would be determined if no loss were detected by impairment. The recovery of an impairment is immediately recorded in the Financial Statement.

Conversion of assets/liabilities into foreign currency

The functional and presentation currency adopted by SMAT S.p.A. is Euro. The transactions in foreign currencies are initially identified at the exchange rate at the date of the operation. The assets and liabilities in currency - with the exception of the tangible assets - are reported in the reference exchange rate at the date the fiscal year is closed and the relevant profits and losses on the exchange rate are regularly computed to the Financial Statement; the net profit - if any - which could arise is allocated to a dedicated non-distributable reserve up to the date of use.

Use of estimates

The drafting of the balance sheet and relevant notes requires the administration entity to run estimates that influence the values of the financial statement assets and liabilities and on the information regarding the potential assets and liabilities as of the date of the financial statement.

The current generalized economic and financial crisis requires making assumptions related to the future trend, which is characterized by uncertainty. Subsequently, we cannot exclude in the future different results from those estimated, which could therefore require amendments that cannot be estimated today or forecast at the accounting value of the relevant financial statement items.

Estimates are used in different areas, such as the credit depreciation Fund, provisions for contingencies and charges, depreciation, assessment of the assets regarding shareholding in related companies and subsidiaries the sale revenues, the cost and charges regarding the management of the Integrated Water Service and the income taxes.

The estimates and assumptions are periodically reviewed by the Group based on the best knowledge of the activity and of other factors that can be reasonably derived from the current circumstances, and the effects of any changes are immediately reflected in the Financial Statement.

Other information

Corporate agreements outside the Statement of Assets and Liabilities

Bear in mind there are no agreements resulting from the Financial Statement that can have a significant impact on the equity and financial status, or on the economic result of the Company.

Amounts expressed in the Supplementary Note

Unless otherwise indicated, the amounts reported in the Supplementary Note are expressed in Euro units with rounding up to the upper unit for hundredths equal to or greater than 50

Accounting principles, IFRS amendments and interpretations adopted from January 1st 2018

The following IFRS accounting principles, amendments and interpretations were applied for the first time by the group starting as of 1 January 2018:

- On 28 May 2014, IASB published the **IFRS 15 – Revenue from Contracts with Customers** principle, together with clarifications published on 12 April 2016, destined to replace the IAS 18 – *Revenue* and IAS 11 – *Construction Contracts* principles, as well as the interpretations of the IFRIC 13 – *Customer Loyalty Programs*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The principle establishes a new model of acknowledging the revenues, which shall be applied to all the contracts stipulated with the customers, with the exception of those that are within the field of application of other IAS/IFRS principles such as leasing, insurance contracts and financial instruments. The essential passages for the accounting of the revenues in compliance with the new model are:
 - o identifying the contract with the customer;
 - o identifying the performance obligations of the contract;
 - o determining the price;
 - o allocating the price to the contract's performance obligation;
 - o the criteria for calculating the revenue when the amount meets every performance obligation.

The principle was applied as of 1 January 2018 and did not produce significant effects in the balance sheet.

- On 24 July 2014 IASB published the final version of the **IFRS 9 – Financial Instruments: recognition and measurement**. The document collects the results of the IASB project aimed at replacing IAS 39: The new principle must be applied on the balance sheets that start on January 1st 2018 or later.

It introduces new criteria for the classification and assessment of the financial assets and liabilities. In particular, for financial activities the new principle uses a unique approach based on management methods for financial instruments and contractual cash flow characteristics for financial activities to determine the assessment criteria, replacing the different rules set forth in IAS 39. For financial liabilities, the principle changes the accounting method used for variations in *fair value* from financial liability designated as financial liability valued at *fair value* through the financial statement, in the case in which these variations are due to variation in the credit-worthiness of the issuer of the same liability. According to the new principle, these variations must be discerned in the prospectus "*Other comprehensive income*" and no longer included in the financial statement. Furthermore, in the changes to non-substantial financial liabilities, spreading the economic effects of re-negotiating residual duration of debt, modifying the actual interest rate on that date, is no longer allowed. It is now necessary to detail the relative effect in the financial statement.

With reference to the *impairment model*, the new principle requires that the estimate of the losses on credits is performed on the basis of the expected losses model (instead of on the model of the incurred losses utilized by IAS 39) using supportable information, available without charges or unreasonable efforts

that required historical, current and perspective data; The principle foresees that the *impairment model* is applied to all financial instruments, or to financial activities valued at the amortized cost, to those valued at *fair value through other comprehensive income*, to credits derived from rental contracts and commercial credits.

Finally, the principle introduces a new *hedge accounting* model, for the purpose of fulfilling the requirements set forth in the current IAS 39, which were sometimes considered too stringent and not suitable for reflecting the *risk management* policies of the company. The main new items from the document include:

- o increase in the type of eligible transactions for hedge accounting, also including non-financial assets-liabilities risks that are eligible for management in hedge accounting;
- o change from the accounting mode of the forward contracts and the options, when they include a hedge accounting report, to reduce volatility in the financial statement;
- o the changes to the efficacy test through the replacement of current methods based on the 80-125% “economic ratio” between the covered item and coverage instrument; furthermore, it will no longer be required to assess the retrospective efficacy of the coverage ratio.

More flexibility in the new accounting rules and counter-balancing additional information requirements on *risk management* in the company.

The group opted for the application of the new principle with a retrospective approach, except when the principle negated re-determination of previous fiscal years, starting from 1 January 2018. The comparative data for the first fiscal year of application were not re-determined, in line with the simplified approach foreseen in the same principle. Finally, it should be stated that based on the nature of its business activities, the Group did not change the classification and valuation of financial activities.

Impacts derived from the application of the new principle on balance sheet values on 1 January 2018 are reported as follows:

Analysis relative to the application of the new principle on values in the balance sheet on 1 January 2018 were relative to the impairment model based on expected credit loss: the Group developed a new credit analysis model, including credits not yet expired in the estimate of the credit depreciation fund and re-determining the depreciation percentages to be applied to the different categories of expired credits based on historical trends; these analysis did not produce significant differences.

Accounting principles, amendments and interpretations IFRS and IFRIC authorized by the European Union, not yet mandatory and not adopted in advance by the Group on 31 December 2018

- On January 13th 2016, IASB published principle **IFRS 16 – Leases**, which will supersede principle IAS 17 – *Leases*, as well as IFRIC 4 *interpretations Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new principle provides a new definition of *lease* and introduces a criterion based on control (*right of use*) of an asset to distinguish the *leasing* contracts from the service contracts, identifying as discriminating elements: the identification of the asset, the right of its replacement, the right to obtain essentially all the economic benefits deriving from the use of the asset and the right to direct the use of the asset represented in the contract.

The principle establishes a sole model to acknowledge and assess the *leasing* contracts for the *lessee*, which envisages entry of the asset subject to the *lease* - also if operational - under assets with the contra item financial charges. On the contrary, the standard does not include significant changes for the lessors

The principle applies starting from January 1st 2019, but an advanced application is allowed.

The Company completed the preliminary *assessment* project for potential impacts from the application of the new principle on the date of transition (1 January 2019). This process was articulated into several stages, among which the complete mapping of contracts that are potentially compatible for containing a lease and analysis of the contracts to understand the main relevant clauses pertinent to IFRS 16.

The *implementation* process for the principle is currently close to completion, which includes setting the computer infrastructure dedicated to managing accounting based on the principle and alignment of administrative processes and controls for the supervision of critical areas the principle is applied to. This process should be completed over the next few months.

The Company decided to apply the principle retrospectively and analysis carried out has not produced a cumulative effect derived from the application of the principle in net equity on 1 January 2019, according to the terms set forth in the sections of IFRS 16:C7-C13. In particular, relative to leasing contracts previously classified as operative, the Company will account:

- a) financial liability, equal to the current value of future residual payments on the date of transition, implemented using the *applicable incremental borrowing rate* on the date of transition for each contract;
- b) usage right equal to the value of financial liability on the date of the transition, net of any accruals and deferrals in the statement of assets and liabilities on the date of closure for this balance sheet.

The following table reports the estimated impacts of adoption of the IFRS 16 on the date of transition.

		Impacts on the date of transition (01.01.2019)
<i>amounts in thousands of Euros</i>		
ASSETS		
Non-current assets		
<i>Land and building usage rights</i>	€	353
<i>Vehicle usage rights</i>	€	1,886
<i>Hardware usage rights</i>	€	8
Total		2,247
NET EQUITY AND LIABILITIES		
Non-current liabilities		
<i>Financial liability for non-current leases</i>	€	1,054
Current liabilities		
<i>Financial liability for current leases</i>	€	1,193
Total		2,247

With the adoption of the IFRS 16, the Company tends to take advantage of the right to extinguish described in section IFRS 16:5(a) in relation to *short-term leases* in all categories.

The Company also intends to take advantage of the right to extinguish granted by IFRS 16:5(b) as concerns contract leases for which the underlying asset is configured as a *low-value asset* (meaning that the underlying asset of the *lease* contract does not exceed Euro [define amount] when new). Contracts that are exempt fall mainly into the following categories:

- o Computers, telephones and tablets;
- o Printers;
- o Other electronic devices;

For these contracts, the introduction of IFRS 16 does not generate any financial liability from the lease and relative usage rights, but the rental contracts will be listed in the financial statement as line items for the duration of the contracts.

Furthermore, with reference to the transition rules, the Company will rely on the following expedient practices available in the case when the modified retrospective transition method is selected:

- o Use of the assessment made on 31 December 2018 according to the IAS 37 Provisions, Contingent Liabilities and Contingent Assets in relation to accounting onerous contracts in alternative to the application of the impairment test on the value of the usage right on 1 January 2019;
- o Classification of contracts that expire with 12 months from the date of transition as short-term lease. For these contracts the lease payments will be entered into the financial statement as line items;
- o Exclusion of direct initial costs from measuring the usage right on 1 January 2019;
- o Use of the information present on the date of transition for the determination of the lease term, with particular reference to exercising the option to extend or to conclude in advance.

The transition to IFRS 16 introduces some professional judgments that require definition of some accounting policies and use of hiring and estimates in relation to the *lease term*, and definition of the *incremental borrowing rate*. The main decisions are presented as follows:

- o The Company has decided not to apply IFRS 16 for contracts containing a lease that has an intangible asset as its underlying activity;
- o the Group analyzed the sum of all leasing contracts, defining for each the lease term, based on the "cannot be canceled" period combined with the effects of possible extension or advance conclusion clauses for which implementation was considered reasonably certain. Specifically, for these assets the assessment took into consideration the facts and circumstances of each activity. With regard to the other categories of assets, mainly corporate vehicles and equipment, the Group generally considered implementation of possible extension or advance conclusion clauses to be improbable, in light of the Group's usual practices.

- o Since the majority of rental contracts stipulated by the Group do not include an implicit interest rate, the actualization rate to be applied to future payments of rents was determined as a risk-free rate with deadlines aligned with the duration of the specific rental contract, increase in credit spread
- On 12 October 2017, IASB published an amendment to **IFRS 9 “Prepayment Features with Negative Compensation**. This document specifies that instruments that require advance reimbursement must respect the *Solely Payments of Principal and Interest (“SPPI”)* test, also in the case in which the “*reasonable additional compensation*” to be paid for advance reimbursement on a “*negative compensation*” for the issuer of financing. The principle will be applied starting from January 1st 2019, but advance application is allowed. The Board Members do not expect a significant effect in the consolidated financial statement of the Group from the adoption of these changes.
- On 7 June 2017, IASB published the interpretation “**Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)**”. The interpretation deals with uncertainties about the fiscal regimes to be adopted on income taxes. In particular, the interpretation requires an entity to analyze *uncertain tax treatments* (individually or as a whole, according to the specifics), always with the assumption that the tax authorities examine the fiscal position in question, with full knowledge of all relevant information. If the entity considers it improbable for that the tax authorities would accept the tax regime being followed, the entity must reflect the uncertainty in a measure of its taxes on current and deferred income. Furthermore, the document does not contain any new reporting obligations, but emphasizes that the entity must establish if it is necessary to provide information about the considerations made by management and relative uncertainty inherent in tax accounting, in accordance with IAS 1.
The new principle shall be applied starting from January 1st 2019, but advance application is allowed. The Board Members do not expect a significant effect in the consolidated balance sheet from the adoption of these changes.

Accounting principles, IFRS amendments and interpretations not yet certified by the European Union

To the date of reference of this consolidated balance sheet, the competent bodies of the European Union have not yet concluded the certification process required for the adoption of the amendments and principles described herein.

- On 18 May 2017, IASB published the principle **IFRS 17 – Insurance Contracts** which is destined to replace IFRS 4 – *Insurance Contracts*.
The objective of the new principle is to guarantee that an entity provides pertinent information that faithfully represents the rights and obligations derived from issued insurance contracts. The IASB has developed a standard for elimination of existing incongruities and weaknesses in accounting policies, providing a single principle-based framework for taking into account all types of insurance contracts, including reinsurance contracts held by the insurer.
The new principle also includes requirements for presentation and reporting to improve comparability among the entities in this sector.
The new principle measures an insurance contract based on a *General Model* or a simplified version of the same, called the *Premium Allocation Approach (“PAA”)*.
The main characteristics of the *General Model* are:
 - o the estimates and the hypotheses for future cash flows are always current;
 - o the measurement reflects the temporal value of money;
 - o the estimates foresee extensive use of observable information on the market;
 - o there is current and explicit risk measurement;
 - o the expected profile is differentiated and aggregated into groups of insurance contracts at the moment of initial reading; and,
 - o the expected profit in the period of contractual coverage takes into account changes deriving from variations in the hypothesis relative to financial flows for each group of contracts.
 The PAA approach includes measurement of liabilities for the residual coverage of a group of insurance contracts on the condition that, at the time of initial reading, the entity expects that this liability represents a reasonable approximation of the *General Model*. Contracts with a period of coverage of one year or less are automatically suitable for the PAA approach. Simplifications derived from the application of the PAA method are not applied to assessment of liability for *claims* in general, which are measured using the *General Model*. Nevertheless, it is not necessary to actualize those cash flows if it is expected that the balance to be paid or received is due within one year from the date of the *claim*.

The entity must apply the new principle to issued insurance contracts, including issued reinsurance contracts, held reinsurance contracts and investment contracts with a *discretionary participation feature* (DPF).

The principle applies starting from January 1st 2021, but an advanced application is allowed, only for those entities which apply IFRS 9 - Financial Instruments - and IFRS 15 - Revenue from Contracts with Customers. The Board Members do not expect a significant effect in the consolidated balance sheet from the adoption of this principle.

- On 12 October 2017, IASB published the document "**Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)**". This document explains the requirement to apply IFRS 9, including requirements linked to *impairment*, other long-term interests in partner companies and joint ventures for which the net equity method is not applied. The principle will be applied starting from January 1st 2019, but advance application is allowed.

The Board Members do not expect a significant effect in the consolidated financial statement of the Group from the adoption of these changes.

- On 12 December 2017, IASB published the document "**Annual Improvements to IFRSs 2015-2017 Cycle**" which implements the changes to some principles in the scope of the annual improvement process for the same. The main changes are relative to:

- o **IFRS 3 Business Combinations** and **IFRS 11 Joint Arrangements**: the amendment clarifies that at the moment an entity obtains control of a *business* that is a *joint operation*, it must re-measure its previously held interest in that same *business*. This process is not foreseen in the case of obtaining joint control.
- o **IAS 12 Income Taxes**: this amendment explains that all the fiscal effects linked to dividends (including payments on financial instruments classified within net equity) should be accounted in alignment with the transaction that generated the same profits (financial statement, OCI or net equity).
- o **IAS 23 Borrowing costs**: this change explains that in the case of financing that remains after the *qualifying asset* of reference is ready for use or for sale, the same become part of the group of financing loans used to calculate financing costs.

The changes will be applied starting from January 1st 2019, but advance application is allowed. The Board Members do not expect a significant effect in the consolidated financial statement of the Group from the adoption of these amendments.

- On 7 February 2018, IASB published the document "**Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)**". The document explains how an entity must operate a change (i.e. a *curtailment* or a *settlement*) in a plan with defined benefits. The changes require the entity to update their hypotheses and re-measure liabilities or net activity according to the plan. The amendments state that after this event occurs, an entity uses updated hypotheses to measure the *current service cost* and interests for the rest of the period of reference following the event. At present, the Board Members are assessing the possible effects of the introduction of these amendments on the consolidated balance sheet of the Group, but they do not expect a significant effect in the consolidated balance of the Group from the adoption of these amendments.

- On 22 October 2018, IASB published the document "**Definition of a Business (Amendments to IFRS 3)**". The document provides clarifications about the definition of business for the correct application of the IFRS 3 principle. In particular, the amendment states that a business usually produces output, the presence of output is not strictly necessary for identifying a business in the presence of a group of integrated activities/processes and goods. Nevertheless, to satisfy the definition of business, an integrated group of activities/processes and goods must include, as a minimum, input and a substantial process that together contribute significantly to the capacity to create output. For this purpose, IASB replaced the term "capacity to create output" with "capacity to contribute to the creation of output", to clarify that a business can exist also without the presence of all the input and processes necessary for creating output.

The amendment also introduced a "*concentration test*", optional for the entity, to determine if a group of activities/processes and acquired goods is a type of *business*. If the test produces a positive result, the group of activities/processes and acquired goods does not constitute a *business* and the principle does not require further verification. If the test produces a negative result, the entity must perform further analysis on the activities/process and acquired goods to identify the presence of a *business*. For this purpose, the amendment added several illustrative examples to the IFRS 3 principle, to better understand the practical application of the new definition of a *business* from this specific perspective. The changes are applied to all the

business combinations and acquisitions of businesses after 1 January 2020, but advance application is also allowed.

Considering that this amendment will be applied to new acquisition operations that conclude starting from 1 January 2020, any effects will be accounted in the consolidated balance sheets that conclude after that date.

- On 31 October 2018, IASB published the document **“Definition of Material (Amendments to IAS 1 and IAS 8)”**. The document introduced a change in the definition of “relevant” in the IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* principles. This amendment has the objective to render the definition of “relevant” more specific and introduced the concept of *“obscured information”* alongside the concepts of omitted or erroneous information already present in the two principles in question. The amendment clarifies that information is *“obscured”* if it was described in a way that generates an effect at first reading in a balance sheet similar to what would be produced if the information was omitted or erroneous.

The Board Members do not expect a significant effect in the consolidated financial statement of the Group from the adoption of this amendment.

- On 11 September 2014, IASB published an amendment to **IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture**. The document was published to resolve a current conflict between IAS 28 and IFRS 10.

According to IAS 28, the profits or losses resulting from transfer or cessation of a non-monetary asset. On the contrary, the IFRS 10 principle foresees the insertion of the entire profits or losses in the case of loss of control of a subsidiary company, also if the entity continues to hold a non-controlling share in the same company, also including cessation or transfer of a subsidiary company to a *joint venture* or partner company. The introduced changes include transfer/assignment of an activity or subsidiary company to a *joint venture* or partner company, the value of profit or loss inserted into the balance sheet of the transferor/assignor depends on whether the transferred/assigned activity or subsidiary company constitutes a *business* or not, according to application of the IFRS 3 principle. If the transferred/assigned business or subsidiary company represents a business, the entity must insert the profit or loss from the entire previously held share; in the contrary case, the portion of profit or loss relative to the share in possession by the entity must be eliminated. At present, IASB has suspended application of this amendment. The Board Members do not expect a significant effect in the consolidated financial statement of the Group from the adoption of these changes.

Remarks on the Financial Position and Results- Finance

NON-CURRENT ASSETS

1. Tangible fixed assets

€ 169,161,815

The composition of the tangible fixed assets and the relevant movements occurring during the fiscal year are reported in the following table:

2017 Categories	Land and buildings	Plants and machinery	Commercial & industrial equipment	Other assets	Assets under construction and payments on account	Grand Total
Historical cost as of December 31 st 2016	87,224,047	303,309,706	11,352,355	14,889,540	12,838,214	429,613,862
Amortization fund at December 31 st 2016	(26,627,196)	(213,423,645)	(8,241,381)	(12,695,220)	0	(260,987,442)
Net value as of December 31 st 2016	60,596,851	89,886,061	3,110,974	2,194,320	12,838,214	168,626,420
Adjustments	89,119	58,721	0	31,250	(215,736)	(36,646)
Works in progress completed in 2017	1,272,607	973,916	0	60,657	(2,307,180)	0
Disinvestment in the fiscal year	0	(2,163)	(17,785)	(167,548)	0	(187,496)
Increases in the fiscal year	1,294,055	1,388,256	935,785	804,701	12,099,383	16,522,180
Historical cost as of December 31 st 2017	89,879,828	305,728,436	12,270,355	15,618,600	22,414,681	445,911,900
Depreciation in the fiscal year	(2,788,513)	(12,019,577)	(584,725)	(749,367)	0	(16,142,182)
Use of funds	0	1,776	17,496	166,832	0	186,104
Amortization fund as of December 31 st 2017	(29,415,709)	(225,441,446)	(8,808,610)	(13,277,755)	0	(276,943,520)
Net value as of December 31 st 2017	60,464,119	80,286,990	3,461,745	2,340,845	22,414,681	168,968,380

2018 Categories	Land and buildings	Plants and machinery	Commercial & industrial equipment	Other assets	Assets under construction and payments on account	Grand Total
Historical cost as of December 31 st 2017	89,879,828	305,728,436	12,270,355	15,618,600	22,414,681	445,911,900
Amortization fund as of December 31 st 2017	(29,415,709)	(225,441,446)	(8,808,610)	(13,277,755)	0	(276,943,520)
Net value as of December 31 st 2017	60,464,119	80,286,990	3,461,745	2,340,845	22,414,681	168,968,380
Works in progress completed in 2018	0	0	0	0	(433,882)	(433,882)
Works in progress completed in 2018	3,269,935	934,306	349,632	0	(4,553,873)	0
Disinvestment in the fiscal year	(25,000)	(19,192)	(11,995)	(24,601)	0	(80,788)
Adjustments	(70,930)	(16,772)	0	0	(217,865)	(305,567)
Increases in the fiscal year	1,131,192	1,941,117	925,042	664,938	12,379,472	17,041,761
Historical cost as of December 31 st 2018	94,185,025	308,567,895	13,533,034	16,258,937	29,588,533	462,133,424
Depreciation in the fiscal year	(2,954,026)	(11,737,457)	(629,660)	(783,096)	0	(16,104,239)
Use of funds	18,604	21,129	11,860	24,557	0	76,150
Amortization fund as of December 31 st 2018	(32,351,131)	(237,157,774)	(9,426,410)	(14,036,294)	0	(292,971,609)
Net value as of December 31 st 2018	61,833,894	71,410,121	4,106,624	2,222,643	29,588,533	169,161,815

As indicated in the valuation criteria, the tangible fixed assets also include the entry of the financial changes of direct imputation pertaining to large works in progress.

The sources of income owned by the Company as property were amortized in the ordinary way in compliance with the criteria of itemized evaluation in this Supplementary Note, as well as according to the rates representing the estimated residual possibility of utilization as of the date of this financial statement. On the increments developed in the fiscal year, rates reduced by 50% were applied.

For the fixed assets deriving from the acquisitions of business units of SAP S.p.A. (2015) and SCA S.r.l. (2016), by the Parent Group, we enacted an amortization proportional to the actual time of utilization.

“Land and buildings” include the entry, in the subcategory “Buildings & industrial”, of the building located in the municipality of Bardonecchia acquired by SMAT S.p.A. at the end of fiscal year 2011 for its future destination as a drinking water plan that will operate to serve the Acquedotto di Valle and that, in consideration of the non-availability of the use, was not subject to amortization.

“Plants and machinery” also includes the value of spare parts at the service of gas motors also includes the spare parts that serve gas motors subject to the self-production of energy at the water treatment plant of Castiglione Torinese, whose utilization fulfills characteristics of multi-annual utility.

“Other tangible fixed assets” include furniture and furnishings, ordinary office equipment, electromechanical and electronic equipment, hardware, cars, motor vehicles for transport and other vehicles.

“Assets under construction and payments on account” includes the value, according to the state of advancement, of works in progress to be realized at the end of the year, as well as the advances paid to plant suppliers for a total value of over Euro 29.6 million.

Subsequent to the application of IFRIC 12, “Service Concession Arrangements”, the revertible assets referred to the waterworks system of the City of Turin have been reclassified under intangible assets.

Intangible fixed assets

€ 620,601,546

The intangible assets are summarized in the following table:

2017 Categories	Goodwill	Plant and expansion costs	Development costs	Industrial patent rights & intellectual property rights	Concessions, licenses, trademarks and similar rights	Assets under construction and payments on account	Other	Total Other intangible assets H (B+C+D+E+F+G)	Assets under concession concession (see detailed transac- tions) I	Grand total A+H+I
	A	B	C	D	E	F	G			
Historical cost as of December 31 st 2016	5,928,005	39,142	249,266	154,000	16,612,741	1,790,274	510,210	19,355,633	796,747,488	822,031,126
Amortization fund at December 31 st 2016	0	(39,142)	(249,266)	(154,000)	(15,722,293)	0	(110,211)	(16,274,912)	(243,084,259)	(259,359,171)
Net value as of December 31 st 2016	5,928,005	0	0	0	890,448	1,790,274	399,999	3,080,721	553,663,229	562,671,955
Adjustments	0	0	0	0	0	(31,250)	0	(31,250)	56,554	25,304
Works in progress completed in 2017	0	0	0	0	749,772	(749,772)	0	0	0	0
Disinvestment in the fiscal year	0	0	0	0	(9,950)	0	0	(9,950)	(5,102)	(15,052)
Increases in the fiscal year	0	0	0	0	1,493,007	374,903	0	1,867,910	62,140,414	64,008,324
Historical cost as of December 31 st 2017	5,928,005	39,142	249,266	154,000	18,845,570	1,384,155	510,210	21,182,343	858,939,354	886,049,702
Depreciation in the fiscal year	0	0	0	0	(1,326,285)	0	(11,765)	(1,338,050)	(36,287,725)	(37,625,775)
Use of funds	0	0	0	0	9,950	0	0	9,950	3,030	12,980
Amortization fund as of December 31 st 2017	0	(39,142)	(249,266)	(154,000)	(17,038,628)	0	(121,976)	(17,603,012)	(279,368,954)	(296,971,966)
Net value as of December 31 st 2017	5,928,005	0	0	0	1,806,942	1,384,155	388,234	3,579,331	579,570,400	589,077,736

2018 Categories	Goodwill	Plant and expansion costs	Development costs	Industrial patent rights & intellectual property rights	Concessions, licenses, trademarks and similar rights	Assets under construction and payments on	Other	Total Other intangible as- sets	Assets under concession (see detailed transactions)	Grand total
	A	B	C	D	E	F	G	H (B+C+D+E+F+G)	I	A+H+I
Historical cost as of December 31 st 2017	5,928,005	39,142	249,266	154,000	18,845,570	1,384,155	510,210	21,182,343	858,939,354	886,049,702
Amortization fund as of December 31 st 2017	0	(39,142)	(249,266)	(154,000)	(17,038,628)	0	(121,976)	(17,603,012)	(279,368,954)	(296,971,966)
Net value as of De- cember 31 st 2017	5,928,005	0	0	0	1,806,942	1,384,155	388,234	3,579,331	579,570,400	589,077,736
Works in progress completed in 2018	0	0	0	0	0	0	0	0	433,882	433,882
Works in progress completed in 2018	0	0	0	0	0	0	0	0	0	0
Disinvestment in the fiscal year	0	0	0	0	0	0	0	0	(20,466)	(20,466)
Adjustments	0	0	0	0	0	0	0	0	(1,257,650)	(1,257,650)
Increases in the fiscal year	0	0	0	0	1,241,357	226,441	0	1,467,798	72,220,682	73,688,480
Historical cost as of December 31 st 2018	5,928,005	39,142	249,266	154,000	20,086,927	1,610,596	510,210	22,650,141	930,315,802	958,893,948
Depreciation in the fiscal year	0	0	0	0	(1,473,134)	0	(11,764)	(1,484,898)	(40,177,233)	(41,662,131)
Use of funds	0	0	0	0	0	0	0	0	341,695	341,695
Amortization fund as of December 31 st 2018	0	(39,142)	(249,266)	(154,000)	(18,511,762)	0	(133,740)	(19,087,910)	(319,204,492)	(338,292,402)
Net value as of De- cember 31 st 2018	5,928,005	0	0	0	1,575,165	1,610,596	376,470	3,562,231	611,111,310	620,601,546

For detailed transactions in the category “Assets under concession”, refer to the section of reference.

2. Goodwill

€ 5,928,005

The value of goodwill on December 31st 2018 can be attributed to the acquisition of the SAC business unit (January 1st 2014), amounting to Euro 96,000 and the SAP S.p.A. business unit (July 1st 2015) regarding the Municipalities of ATO 3 Torinese amounting to Euro 5,832,005, entered under the intangible assets with the approval of the Board of Auditors.

Starting on January 1st 2015, through the adoption of the international accounting principles, goodwill is no longer subject to depreciation, but submitted to impairment test, in compliance with the provisions of IAS 36. For further details, refer to comments in the dedicated section of the Consolidated Balance Sheet.

The goodwill was allocated to the reference Cash Generating Unit (CGU) in compliance with IAS 36 and as such it is not subject to amortization, but to verification by impairment on a yearly basis, or more frequently, should an event or circumstances arise that may lead to the assumption of a value reduction. The impairment test is developed through the comparison between the net accounting value and the recoverable value of the CGU the goodwill was allocated to, determined with reference to the greatest value between the fair value net of the costs of sale and the value of use of the CGU. The value used was determined by applying the synthetic income method, actualizing operating income net of taxes (Net operating profit after tax: Nopat) relative to the CGU in the Economic Financial Plan 2015-2033, approved by the Ordinary Shareholder Meeting on 29.06.2015. The Economic and Financial Plan also highlights the results expected for the whole duration of the

license and - even though it is drafted on a time horizon longer than 5 years - it constitutes the representative document to identify the prospect cash flows. Furthermore, since the license has a pre-defined useful life, the "terminal value" has not been defined.

The discount value utilized is represented by the WACC identified with reference to the sector the identified CGU operates within. The discount rate (WACC) utilized reflects the market assessments on the cost of money and the specific risks of the sector of activities and of the reference geographic area.

In particular, in determining the actualization rate, the following parameters have been utilized:

- Real risk-free rate, equal to the revenue rate of the 10-year BTP, issued 28/12/2018, equal to 2.7%;
- Risk premiums at 5.96%;
- Beta unleveraged for the "water utilities" sector at 0.38;
- Specific risk premiums at 3.48%
- Cost of debt net of taxes at 2.2%.

The estimated discount rate (WACC) is therefore 5.87%.

With reference to fiscal years 2018 and 2017, the impairment tests run do not show any value reductions in the goodwill entered.

The results of the impairment tests have been submitted to a sensitivity analysis aimed at verifying their variability with the change of the main assumptions at the basis of the estimate. To this purpose, two different scenarios were hypothesized as of December 31st 2018.

- scenario 1: actualization rate = 8.07%, with an increase approximately 220 base points with respect to the base scenario;
- scenario 2: actualization rate = 6.97%, with an increase of approximately 110 base points with respect to the base scenario.

The sensitivity analysis shows little sensitivity of the test with the change of assumptions at the basis of the estimate. More precisely, neither of the scenarios above would determine a loss of value of the goodwill.

3. Other Intangible assets

€ 3,562,231

The intangible assets are entered amongst the statement of account assets, since they are part of the assets allocated to be durably used. No value adjustment has been applied to the cost of acquisition or production of the intangible assets.

"Concessions, licenses, trademarks and similar rights" includes the cost incurred for the acquisition of software licenses depreciated in three fiscal years, and for the deposit of trademarks, which are depreciated in ten fiscal years.

"Assets under construction and payments on account" records the value – according to the state of progress - of the design costs to adapt the safeguard areas and studies to install flow rate metering instruments in the sewers to detect anomalous inputs.

Furthermore, since 2014, the entry "Other" also includes the "Surface right" regarding the parking places at the "Palazzo" car park.

4. Concessions

€ 611,111,310

The item Assets under concession progressed as follows:

2017 Categories	Usage rights granted by CIACT	Usage rights constituting the aqueduct system for the City of Turin	Improvements on assets constituting the aqueduct system for the City of Turin	Improvements on external aqueduct assets in management	Ongoing improvement works on assets constituting the aqueduct system for the City of Turin	Ongoing improvement works on assets of external aqueducts in management	Revertible assets	Total Assets under concession
Historical cost as of December 31 st 2016	3,834,635	50,871,004	156,255,391	433,015,937	14,186,845	133,177,312	5,406,364	796,747,488
Amortization fund at December 31 st 2016	(2,443,936)	(33,685,735)	(57,150,851)	(145,752,216)	0	0	(4,051,521)	(243,084,259)
Net value as of December 31 st 2016	1,390,699	17,185,269	99,104,540	287,263,721	14,186,845	133,177,312	1,354,843	553,663,229
Adjustments	0	0	(1,412)	215,587	0	(157,621)	0	56,554
Works in progress completed in 2017	0	0	6,913,234	21,274,869	(6,849,200)	(21,338,903)	0	0
Disinvestment in the fiscal year	0	0	0	(5,102)	0	0	0	(5,102)
Increases in the fiscal year	0	0	5,863,145	15,361,846	3,150,025	37,765,398	0	62,140,414
Historical cost as of December 31 st 2017	3,834,635	50,871,004	169,030,358	469,863,137	10,487,670	149,446,186	5,406,364	858,939,354
Depreciation in the fiscal year	(81,805)	(1,010,898)	(7,747,711)	(27,208,263)	0	0	(239,048)	(36,287,725)
Use of funds	0	0	70	2,960	0	0	0	3,030
Amortization fund as of December 31 st 2017	(2,525,741)	(34,696,633)	(64,898,492)	(172,957,519)	0	0	(4,290,569)	(279,368,954)
Net value as of December 31 st 2017	1,308,894	16,174,371	104,131,866	296,905,618	10,487,670	149,446,186	1,115,795	579,570,400

2018 Categories	Usage rights assets granted by CIACT	Usage rights constituting the aqueduct system for the City of Turin	Improvements on assets constituting the aqueduct system for the City of Turin	Improvements on external aqueduct assets in management	Ongoing improvement works on assets constituting the aqueduct system for the City of Turin	Ongoing improvement works on assets of external aqueducts in management	Revertible assets	Total Assets under concession
Historical cost as of December 31 st 2017	3,834,635	50,871,004	169,030,358	469,863,137	10,487,670	149,446,186	5,406,364	858,939,354
Amortization fund as of December 31 st 2017	(2,525,741)	(34,696,633)	(64,898,492)	(172,957,519)	0	0	(4,290,569)	(279,368,954)
Net value as of December 31 st 2017	1,308,894	16,174,371	104,131,866	296,905,618	10,487,670	149,446,186	1,115,795	579,570,400
Works in progress completed in 2018	0	0	0	433,882	0	0	0	433,882
Works in progress completed in 2018	0	0	2,356,993	57,322,749	(2,356,993)	(57,322,749)	0	0
Disinvestment in the fiscal year	0	0	0	(20,466)	0	0	0	(20,466)
Adjustments	0	0	(394,213)	(675,243)	(15,077)	(173,117)	0	(1,257,650)
Increases in the fiscal year	0	0	5,063,583	16,985,762	8,212,747	41,958,590	0	72,220,682
Historical cost as of December 31 st 2018	3,834,635	50,871,004	176,056,721	543,909,821	16,328,347	133,908,910	5,406,364	930,315,802
Depreciation in the fiscal year	(81,805)	(1,010,898)	(8,097,577)	(30,771,339)	0	0	(215,614)	(40,177,233)
Use of funds	0	0	121,380	220,315	0	0	0	341,695
Amortization fund as of December 31 st 2018	(2,607,546)	(35,707,531)	(72,874,689)	(203,508,543)	0	0	(4,506,183)	(319,204,492)
Net value as of December 31 st 2018	1,227,089	15,163,473	103,182,032	340,401,278	16,328,347	133,908,910	900,181	611,111,310

Subsequent to the adoption of IFRIC 12, this category includes the improvements for the enhancement of the assets received in use by the City of Turin as well as the system of the well water systems entrusted in direct management to the Company and depreciated on the basis of the estimated residual economic and technical lifespan

This entry also refers to “Revertible assets” which show the values of the extensions, realized by the former Shareholder AAM Torino S.p.A., to add to the aqueduct system of the City of Turin and received by the same in provision, for which the constraint for free transmission at the end of the relative lease was stipulated.

Moreover it includes the value of the “Right of use of the assets that constitute the waterworks system”, which is mandatory and already acknowledged by the City of Turin when they are given to the former Shareholder AAM Torino S.p.A. and then given by the latter to SMAT Torino S.p.A. The item also includes the value of the right to use the waterworks system transferred to January 1st 2003 by C.I.A.C.T. in liquidation. The values are represented in compliance with the expert appraisals drafter to transfer them and depreciated as a function of the new agreement between Territory Authority n. 3 Torinese and SMAT S.p.A. the new agreement between Territory Authority no. 3 Torinese and SMAT S.p.A..

The value of usage rights is amortized based on the relative agreement deed.

Amortizations on improvements and revertible assets were determined with reference to the estimated economic-technical lifespan.

5. Investments

€ 14,120,845

Categories	Subsidiaries	Associates	Other enterprises	Grand total
Historical cost as of December 31 st 2017	1,491,322	43,102,341	3,536,923	48,130,586
Value adjustment as of December 31 st 2017	(1,071,615)	(27,360,000)	(78,126)	(28,509,741)
Net value as of December 31 st 2017	419,707	15,742,341	3,458,797	19,620,845
Extraordinary Operations in 2018				
Subscriptions/acquisitions in 2018				
Payments in capital account 2018				
Disposals/reductions in 2018				
Value adjustment in 2018		(5,500,000)		(5,500,000)
Historical cost as of December 31 st 2018	1,491,322	43,102,341	3,536,923	48,130,586
Value adjustments as of December 31 st 2018	(1,071,615)	(32,860,000)	(78,126)	(34,009,741)
Net value as of December 31st 2018	419,707	10,242,341	3,458,797	14,120,845

In general terms, the statement of account values do not significantly exceed the ones that correspond to the fractions of Net Equity reported in the statements of account to December 31st 2018 of the related companies. The shareholding in Acque Potabili S.p.A. has been assessed to Euro 10.2 million as related to the fraction of Net Equity from Parent Company SMAT S.p.A., as already described in detail in the Management Report. This value is supported by the impairment test carried out by an external independent expert based on the equity method.

Through Acque Potabili S.p.A., SMAT S.p.A. has undirected joint control of:

- Acquadotto del Monferrato S.p.A.

The shareholding in Acque Potabili Siciliane S.p.A. after the filing of the Extraordinary Administration Procedure of February 7th, 2012, in bankruptcy since October 10th 2013, has been reclassified as "Other companies" instead of shareholding in related companies, even though it was fully depreciated in the previous fiscal years. As it is better entered in the Management Report, it is completely out of SMAT Group consolidation area.

In compliance with art. 2427, comma 1, no. 5 of the Italian Civil Code, the participating interest in subsidiaries related companies in force to December 31st2018, respectively consists of:

- Shareholding in **Risorse Idriche S.p.A.**, having its registered office in Torino, Corso XI Febbraio 14 and having the following characteristics:

Shareholding in Risorse Idriche S.p.A.

a) Share capital of the investee	(€)	412,769
b) Shares held	(Qty.)	727,305
c) Nominal value per share	(€)	0.52
d) Acquisition cost	(€)	1,440,322
e) Stake held	(%)	91.62
f) Book value	(€)	368,707
g) Net Equity of the investee	(€)	665,854
h) Result of previous fiscal year	(€)	34,458

- Shareholding in **AIDA Ambiente S.r.l.**, having its registered office in Pianezza, Via Collegno 60, and having the following characteristics:

Partecipazione nella società AIDA Ambiente S.r.l.

a) Share capital of the investee	(€)	100,000
b) Shares held	(Qty.)	N/A
c) Nominal value per share	(€)	N/A
d) Acquisition cost	(€)	51,000
e) Stake held	(%)	51.00
f) Book value	(€)	51,000
g) Net Equity of the investee	(€)	693,462
h) Result of previous fiscal year	(€)	173,097

- Shareholding in **Acque Potabili S.p.A.**, having its registered office in Torino, Corso XI Febbraio 22, and having the following characteristics:

Shareholding in Acque Potabili S.p.A.

a) Share capital of the investee	(€)	7,633,096
b) Shares held	(Qty.)	3,429,125
c) Nominal value per share	(€)	1.00
d) Acquisition cost	(€)	43,102,341
e) Stake held	(%)	44.92
f) Book value	(€)	10,242,341
g) Net Equity of the investee	K/€	22,225
h) Result of previous fiscal year	K/€	(10,708)

The value of other shares is supported by the impairment test carried out by an external independent expert, who used the income method, where applicable, based on the weighted average cost of capital (WACC) of 5.87% foreseeing a perpetual growth rate (g) of 1.5%.

The fair value valuation of the other shares determined a value that is substantially aligned with the cost of investment, already recorded on 31 December 2017, at 3.5 million Euros. Even though the profitability of some investees in the medium term results positive, the values were not changed because they were not considered significant.

On July 19th .2016, a specific Notary Deed defined the establishment of the Water Alliance – Acque del Piemonte network of enterprise, whose registered office is in Turin– Viale Maestri del Lavoro n. 4.

As at December 31st 2018 the Equity Fund amounted to Euro 60,000 in which SMAT holds a 8.33% interest.

This network of enterprises was established by 12 Piedmont water service companies, that signed a "network agreement" aimed at upgrading their competitive capacity through a shared representation of interests on behalf of institutional stakeholders and associations, as well as shared decision-making processes.

6. Deferred tax assets

€ 15,232,705

This item (€ 15,077,587 in the previous fiscal year) includes the credit deriving from the active deferred taxes mainly calculated on the provisions for costs to be deducted in the future and the revenues for anticipated taxation.

The entry shows an increase of over Euro 155,000 from the previous fiscal year, due to the combined effect of deductibility of costs accrued in the fiscal year in progress, future fiscal years and deduction of the costs recorded in previous fiscal years, in this fiscal year.

These effects are reported in the following detail table:

Description	Balance as of 12/31/2017	Costs transferred to 2018	% IRES/IRAP	Receivables IRES/IRAP transferred as of 31/2018	Incremental costs in 2018	% IRES/IRAP	New payable IRES/IRAP as of 12/31/2018	Balance as of 12/31/2018
Multi-year accrued liabilities – F.O.N.I.	3,354,596							3,354,596
Provisions for liabilities and charges Expenses:								
• Expenses in BI IRAP	6,134,306	(8,143,968)	28.20%	(2,296,600)	5,812,268	28.20%	1,639,058	5,476,764
• Expenses outside BI IRAP	52,409	(218,370)	24.00%	(52,409)				0
Allocation of Provision for Bad Debts	5,440,921	(669,880)	24.00%	(160,771)	4,312,269	24.00%	1,034,944	6,315,094
Depreciation Amortization Goodwill and trademarks SAP/SAC	4,888							4,888
Local taxes for current fiscal year but paid next year	283	(1,175)	24.00%	(283)		24.00%		0
Compensation to Directors not paid					44,511	24.00%	10,683	10,683
Payable interest in arrears	90,184	(147,586)	24.00%	(35,421)	66,320	24.00%	15,917	70,680
TOTAL	15,077,587	(9,180,979)		(2,545,484)	10,235,368		2,700,602	15,232,705
CHANGES IN DIFFERED RECEIVABLE TAXES							155,118	

7. Non-current financial assets

€ 985,029

		12/31/2018	12/31/2017
• Receivable caution money	€	985,029	907,087
Total	€	985,029	907,087

CURRENT ASSETS

8. Inventory

€ 7,601,363

The item includes:

		12/31/2018	12/31/2017
• Raw, subsidiary materials and consumables and commodities	€	7,560,218	7,374,258
• Finished products and goods	€	41,145	41,145
Total	€	7,601,363	7,415,403

The total change in Inventory during the fiscal year amounted to Euro 185,960.

The value of the inventory is adjusted by a depreciation fund regarding slow turnover materials for an amount of € 770,000, which has not changed from the previous year.

The Inventory consists of materials that are not considered useful for several years. It is assessed in the financial statement at the lowest price between the average weighted price and the market one.

No financial charges were attributed to the inventory value.

9. Trade and other receivables**€ 245,371,326**

The book value of the Trade and other receivables breaks down as follows:

		12/31/2018	12/31/2017
Due from customers			
• Bills and invoices issued	€	193,391,961	209,476,699
• Bills and invoices to be issued	€	66,489,453	72,393,130
• Provision for bad debts	€	(28,248,369)	(24,712,014)
Total due from customers	€	231,633,045	257,157,815
Due from subsidiaries	€	1,874,267	1,716,988
Due from associates	€	57,325	253,550
Due from holding companies	€	3,655,770	4,310,199
Due from other	€	8,150,919	5,907,932
Net book value	€	245,371,326	269,346,484

DUE FROM CUSTOMERS**€ 231,633,045**

The net value due from customers decreased by approximately 25.5 million Euros in respect to the previous fiscal year, due to collection of bills with issue dates concentrated in the last period of 2017 and the utilities management computer application being fully operational, which ensured respect of all periodical invoicing deadlines and recovery of subsequent earnings. These receivables are entered at their estimated realizable value, taking into account a prudential write-down of approximately Euro 28.2 million, which were allocated in accordance with the provisions set forth in IFRS 9.

DUE FROM SUBSIDIARIES**€ 1,874,267**

The item (€ 1,716,988 in the previous fiscal year) is represented by the credit towards subsidiaries Risorse Idriche S.p.A. and AIDA Ambiente S.r.l., as highlighted in this note.

DUE FROM ASSOCIATES**€ 57,325**

The item (€ 253,550 in the previous fiscal year) is represented by receivables towards the SAP Group, which was reduced due to the total collection of receivables towards the partner company Acquedotto del Monferato.

DUE FROM HOLDING COMPANIES**€ 3,655,770**

This item includes receivables from the City of Turin deriving from normal commercial transactions executed at market conditions for water supply, rentals and accessory jobs.

In respect to the previous year (€ 4.310.199) the item demonstrated a decrease of approximately 654 thousand Euros following collection of bills, most of which were issued in the final period of the previous fiscal year.

DUE FROM OTHER**€ 8,150,919**

These consist of residual commercial receivables. The increase in respect to the previous fiscal year is correlated to the variation in advance payments to suppliers for tenders in accordance with amendments to law 98/2013.

10. Current tax assets**€ 6,293,978**

This item (Euro 7,995,743 in the previous fiscal year) refers mainly to the receivable IRES arising from the paid advances calculated with the historical method (approximately Euro 3.5 million) and the receivables of approximately Euro 2.6 million regarding the petition for an IRES reimbursement, relative to past tax periods, for the deductibility of the IRAP pertaining to labor costs, presented in accordance with the required methods of the Revenue Agency Disposition dated 12/17/2012.

11. Current financial assets **€ 2,565,589**

		12/31/2018	12/31/2017
• Due from subsidiaries	€	2,565,589	1,487,057
• Due from associates	€	0	0
• Due from other	€	0	0
Total	€	2,565,589	1,487,057

Receivables from subsidiaries are mainly receivables from Risorse Idriche S.p.A. for Euro 2.506 million, following a cash pooling agreement stipulated between the Parent Company and the subsidiary on 01/30/2015 to optimize the financial needs and from AIDA Ambiente S.r.l. for Euro 60,000 for the dividend deriving from the destination of the project obtained by the subsidiary as of 12/30/2017.

12. Other current assets **€ 3,793,692**

The credits to others refer to:

		12/31/2018	12/31/2017
• Accrued income	€	0	0
• Deferred charges	€	935,386	1,291,883
• Other assets	€	2,858,306	5,563,829
- Due from employees for amounts to be recovered through withholding	€	237,648	268,797
- Due from Territory rentals and contributions	€	21,433	21,433
- Due from other	€	2,599,225	5,273,599
Total	€	3,793,692	6,855,712

Due from Other refers mainly to receivables from GSE incentivized rates (from the Green Certificates) for approximately Euro 1.350 million, due from other subjects in the amount of approximately Euro 272,000 for credit notes to be received and various receivables for approximately Euro 977,000.

Other deferrals include accrued amounts of subsequent fiscal years of other costs liquidated in the fiscal year.

13. Cash and cash equivalents **€ 119,811,450**

Cash and cash equivalents include:

		12/31/2018	12/31/2017
• Bank and Post Office deposits	€	119,767,150	131,500,360
• Checks	€	4,663	52,590
• Cash and equivalents in hand	€	39,637	34,235
Total	€	119,811,450	131,587,185

The relevant decrease in respect to the previous fiscal year is due to the partial use over the course of this fiscal year of the nonconvertible debenture loan, required to finance investments set forth in the Investment Plan for the Territory Authority 3 Torinese, for which it is in use.

All the aforementioned surpluses are liquid and fully available as of the date of the balance sheet without any constraints whatsoever, except for the collection clause on checks.

NET EQUITY AND LIABILITIES**14. Net Equity** **€ 615,974,778**

The value in the Net Equity takes into account the resolutions taken by the Ordinary Shareholders of June 29th 2018 as related to the destination of the Parent Company results of fiscal year 2017.

COMPOSITION OF THE NET EQUITY

Nature/Description	12/31/2018	POSSIBILITY OF UTILIZATION	AVAILABLE AMOUNT
Share capital	345,533,762		
Legal reserve	18,319,415	X	
Reserve restricted for PEF implementation	199,509,171		
FTA reserve	(2,677,452)		
Other reserves and retained earnings:			
• <i>Optional reserve</i>	34,342,562	X	(1,328,230)
• <i>Severance actualization reserve</i>	791,182		
• <i>Negative reserve for own shares in portfolio</i>	(32,993,340)		
• <i>Reserve for rounding up</i>	(4)		
• <i>Retained earnings</i>	1,352,768	X	1,352,768
<i>Total other Reserves and retained earnings</i>	3,493,168		
Operating income	51,796,714		
Total Net Equity	615,974,778		24,538

SHARE CAPITAL

€ 345,533,762

The Share Capital is fully subscribed, paid and recorded in the Business Registry in compliance with the law and is composed of, as of the date of the Financial Statements, of 5,352,963 ordinary shares of the nominal value of Euro 64.55 each, owned by the Associates.

No movements regarding the shares and share capital have occurred during the fiscal year.

LEGAL RESERVE

€ 18,319,415

The Legal reserve of Euro 15,298,020 as of 12/31/2017 increased by Euro 3,021,395 during the year as per the resolution of the Shareholder Meeting of 06/29/2018.

RESERVE RESTRICTED TO IMPLEMENTATION PEF

€ 199,509,171

This reserve of Euro 153,583,962 as of 12/31/2017, was increased in the fiscal year by Euro 45,925,209 as per Resolution by the Shareholders Meeting on 06/29/2018.

FTA RESERVE

€ (2,677,452)

This reserve includes the effects of FTA on the Net Equity deriving from the adoption of the international accounting principles.

OTHER RESERVE AND RETAINED EARNINGS

€ 3,493,168

Other Reserves include:

		12/31/2018	12/31/2017
• Optional reserve	€	34,342,562	34,342,562
• Severance pay discount reserve	€	791,182	235,055
• Negative reserve of own shares in portfolio	€	(32,993,340)	(30,101,844)
• Reserve for rounding up	€	(2)	(4)
• Retained earnings	€	1,352,766	1,331,142
Total	€	3,493,168	5,806,911

The reserve for the actualization of the Severance Pay includes the profits/losses that result from the actuarial assessments performed in application of IAS 19 to the Severance Pay and pensions accrued as of 12/31/2018. The negative reserve for own shares in portfolio equal to € 32,993.340 refers to 492,965 own shares acquired according to conforming authorization of the Ordinary Shareholder Meeting During the fiscal year, the Company purchased 18,000 shares from shareholder CIDIU S.p.A., in execution of the Resolution of the Shareholder Meeting of 06/28/2017.; 2,580 shares from shareholder CIDIU S.p.A., 7,169 shares from FCT Holding S.p.A. and 9,551 shares from Patrimonio Città di Settimo S.r.l. in execution of the resolution of the Shareholder Meeting of 29/06/2018.

The available reserves in the Financial Statement 2018 amount to Euro 24,538

Profits carried forward were increased in the fiscal year by Euro 21,624, as per resolution of the Shareholder Meeting of 06/29/2018, by effect of destination of the result to the fiscal year 2017.

PROFIT FOR THE YEAR			€ 51,796,714
		12/31/2018	12/31/2017
Profit for the year	€	51,796,714	60,427,907

It corresponds to the balance of the Financial Statement as the difference between the total revenues and costs and it has been fully submitted to ordinary and deferred taxation for IRES and IRAP purposes.

LIABILITIES			€ 589,564,560
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15. Current and non-current financial liabilities			€333,807,783
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Payables to financial institutions as of December 31st 2018 for medium to long term loans are itemized by type on the following table:

	12/31/2018	12/31/2017
Non-current financial liabilities		
Bonds	133,983,809	133,828,837
Payable loans	148,718,816	197,615,991
Total	282,702,625	331,444,828
Current financial liabilities		
Payable loans short-term quota	48,943,133	48,887,370
Due to banks and accrued financial payables	2,162,025	2,195,575
Total	51,105,158	51,082,945
Total financial liabilities	333,807,783	382,527,773

Total financial liabilities are made up of:

- the entry “Due to banks and financial charges” amounting to Euro 2,162,025 which includes other short term operations for Euro 80,984 and accrued financial charges amounting to Euro 2,081,041, which mainly include interest on the debenture loan in the accrued amount;
- The entry “Other loans” whose total value amounted to Euro 331,645,758, net of the residual amortized cost of Euro 1,016,191 for the debenture loan and Euro 99,379 for payable loans.

Movement during the fiscal year is the following:

		Bonds	Loans	Total
Balance as of December 31st 2017	€	133,828,837	246,503,361	380,332,198
Bond issue	€	0		0
New payable loans	€		0	0
Amortized cost reduction	€	154,972	45,958	200,930
Repayment of payable loan installments	€	0	-48,887,370	-48,887,370
Balance as of December 31st 2018	€	133,983,809	197,661,949	331,645,758

The debt for medium to long term funding, gross to the depreciated cost, is detailed in the following table:

Loans	Debt to December 31 st 2018	
Bonds	€	135,000,000
Payable loans		
Banco BPM (formerly Italease)	€	3,562,639
Intesa Sanpaolo	€	6,450,893
European Investment Bank	€	52,000,000
European Investment Bank	€	43,460,000
Cassa Depositi e Prestiti	€	22,500,000
European Investment Bank	€	69,230,769
Others	€	557,027
Total Payable loans		197,761,328
Total	€	332,761,328

The table below shows the liabilities broken down according to type as of December 31st 2018, with an indication of the installments due within the next fiscal year, due between the 2nd and 5th year and due after the 5th year.

Type	Residual amount	Due within next fiscal year	Due between the 5 th year	Due after the 5 th year
Bonds	135,000,000			135,000,000
Payable loans	197,761,328	48,943,133	148,818,195	
Due to banks and accrued financial payables	2,162,025	2,162,025		
Total	334,923,353	51,105,158	148,818,195	135,000,000

Below are the major contractual conditions.

Loans	Value line of credit	Duration in years	Due date	Installment	Rate
Ordinary non-convertible loans	135,000,000	7	4/13/2024	annual	fixed
Banco BPM (formerly Italease)	12,546,059	7	12/31/2020	biannual	Variable (Euribor 6m + spread)
Intesa Sanpaolo	50,000,000	15	6/30/2021	six-monthly at constant capital	Variable (Euribor 6m + spread)
European Investment Bank	130,000,000	15	12/19/2022	six-monthly at constant capital	Variable (Euribor 6m + spread)
European Investment Bank	80,000,000	14	12/30/2022	six-monthly at constant capital	Variable (Euribor 6m + spread)
Cassa Depositi e Prestiti	50,000,000	15	6/30/2023	six-monthly at constant capital	Variable (Euribor 6m + spread)
European Investment Bank	100,000,000	9	6/30/2023	six-monthly at constant capital	fixed
Other	20,343,275	miscellaneous	2019-2022	six months constant/six months	fixed/Variable (Euribor 6m + spread)

The ordinary nonconvertible debenture loan was issued on April 13th 2017.

The bonds are assisted by a rating released by Standard & Poor's, which since 11/2/2017 was reduced from "BBB" to "BBB-" (for details see the Directors' Report), have a duration of seven years with a coupon of 1.95% and they are quoted on the regulated Dublin Stock Market (ISE – Irish Stock Exchange).

Activation of the loan from financial institutions, to finance the investments in expansion and upgrading of the networks, water production, distribution, collection and treatment plants envisaged in the Investment Plan of ATO3, did not require any guarantee by the shareholders and envisages for its entire duration maintenance of the following financial parameter calculated on the data of the Consolidated Financial Statement closed as of 12/31 of the previous year and according to the definitions in the contractual stipulations:

- Net Financial Debt/ MOL (EBIT+Depreciation): lower than or equal to 5.

The Banco BPM (formerly Italease) loan was contracted by assumption in 2013.

The loan contracted with Intesa Sanpaolo (ex B.I.I.S.) is unsecured.

The loan taken in the form of guaranteed credit line, with the European Investment Bank for the provision of the resources required by the investment plan introduced in the Territorial Plan, are assisted by an appropriate guarantee issued by National Credit Institutions, third parties from EIB and by assignment of receivables, which can be claimed at the Territory Authority and third parties as related to the award agreement for management of the Integrated Water System within Territory 3 Torinese.

These credit lines have been fully utilized as a result of the progress of the activities, for which minimum portions of drawing have been stipulated.

More specifically:

- As related to the Euro 130 million loan taken for the development of the works of the investment plan for small and medium-sized infrastructures, the spread was agreed upon at each drawing and a commission calculated on the guaranteed amount remunerates the guarantee released.
- As related to the Euro 80 million loan taken for the development of the works included in the investment plan for large infrastructures, the spread was agreed upon at each drawing and the guarantee contract includes the obligation of maintaining - throughout the duration of the loans - of the following parameters, which are calculated on the Company Statement of Accounts for the Fiscal Year closed on December 31st of last year according to the definitions included in the contract clauses:
 - Net Financial Debt/ MOL (EBIT+Depreciation): lower than or equal to 5.
 - Net Financial Position/Net Equity: lower than or equal to 1.

The commissions paid every year vary within a predefined range lower than 100 bps as related to the position of the aforementioned ratio between Net Financial Position/MOL (EBIT + Depreciation)-

- As related to the Euro 100 million loan, taken for the development of works included in the investment plan for small and medium-sized infrastructures, the following financial parameters apply for the whole duration of the loans, calculated on the data of the Fiscal Year Statement of Accounts of the Company that was closed on December 31st of the previous year and in compliance with the definitions included in the contract agreements.
 - Net Financial Position MOL (EBIT+depreciation): lower than or equal to 5.
 - Net Financial Position/Net Equity: lower than or equal to 1.
 - EBITDA (EBIT+ Depreciation)/Net financial expenses (excluding the value adjustment of financial assets) greater than 5

as well as maintaining the Residual value/Gross Financial Debt ratio greater than or 1.30 where the residual value calculated on the net accounting value, goodwill expenses excluded

The ratio is negative because Financial Income and Financial Expenses show a positive balance, since the financial income is greater than the financial expenses. Therefore, the covenant is complied with.

The issued guarantee is remunerated by a commission calculated on the guaranteed amount.

The loan taken with Cassa Depositi and Prestiti S.p.A for the provision of Euro 50 million, as an integration of the aforementioned EIB loan for the total coverage of the needs connected to large infrastructures, is assisted by the assignment of receivables that can be claimed at the Territory Authority and the third parties as related to the execution of the agreement that awards the management of the Integrated Water Service in Territory 3 Torinese.

This loan involves the obligation to maintain - throughout its duration - the following financial parameters, which are calculated on the data of the Company's Financial Statement for the fiscal year closed on December 31st of the previous year and in compliance with the definitions included in the contract provisions.

- Net Financial Debt/ MOL (EBIT+Depreciation): lower than or equal to 5.
- Net Financial Position/Net Equity: lower than or equal to 1.

In cases of noncompliance with even only one of said financial parameters, the delivering institutions have the right to terminate the contract in advance.

It is worth highlighting that - as of December 31st 2018 - the aforementioned financial parameters are complied with.

Other loans includes the mortgages received as a transfer and mainly stipulated with Cassa Depositi Prestiti.

16. Provisions for employee benefits**€ 15,614,375**

The Provisions for employee benefits as of December 31st 2018 reflects the indemnity accrued by the employees up to December 31st 2006, which will be exhausted by the payments to be made at the end of the work relations, or of any advance in compliance with the law.

The movements of the fund (which is not influence by the shared accrued during the fiscal year in favor of the employees throughout the year) has been as follows:

Employee Severance Provision

- Balance as of December 31 st 2017	€	15,951,209
- Service cost	€	0
- Utilization, adjustments, indemnities and advances paid out in the period	€	(1,213,999)
- Interest cost deriving from IAS 19	€	200,166
- Actuarial Profits/losses	€	(516,521)
Balance as of December 31st 2018	€	14,420,855

Other benefits refer to the estimated quantification of the seniority bonuses potentially due to employees that accrue the relevant requirements stipulated in in the company regulations entered below

Pension fund

- Balance as of December 31 st 2017	€	1,340,924
- Service cost	€	61,591
- Utilization, adjustments, indemnities and advances paid out in the period	€	(107,527)
- Interest cost deriving from IAS 19	€	16,226
- Actuarial Profits/losses	€	(117,694)
Balance as of December 31st 2018	€	1,193,520

The following tables illustrate, respectively, the economic, financial and demographic assumptions made for the actuarial assessment of the liabilities in question.

Economic-financial assumption

- Yearly actualization rate	1.58%
- Yearly inflation rate	1.50%
- Yearly Severance Provision increase rate	2.625%

Demographic assumptions

- Mortality	Tables RG 48
- Disability	INPS tables by age and gender
- Retirement age	Attainment of the requirements
- % of advance payment frequency	1.50%
- Turn-over	0.50%

17. Provisions for risks**€ 22,984,928**

These provisions are made up of:

A) *Allocations for litigation and charges* € 14,133,959

The allocations for litigation and charges reflect the prudent assessment - on the basis of valuation elements available - of the potential additional liabilities due to judicial and extra-judicial litigation which are currently in progress, as well as of other charges of various kinds which are certain or likely to occur in the future.

Movement of these allocations is as follows:

- Balance as of December 31 st 2017	€	17,930,891
- Allocation in the fiscal year	€	1,511,704
- Use in the fiscal year	€	(976,136)
- Estimate adjustment	€	(4,332,501)
Balance as of December 31st 2018	€	14,133,959

The balance of the allocations for litigation and charges as of 12/31/2018 is considered consistent for covering the following estimated potential liabilities.

B) Allocation for cyclical maintenance charges € 959,844

The provisions for routine maintenance charges reflects the valuation of the charge that was technically accrued but not yet liquidated as of the date of the Financial Statements because the routine maintenance programs are repeated over several years. This program cannot be planned with certainty since they concern systems in a continuous production cycle.

The provisions for 2018 have not varied from the previous fiscal year, considered congruent:

- Balance as of December 31 st 2017	€	959,844
- Allocation in the fiscal year	€	0
- Use in the fiscal year	€	0
Balance as of December 31st 2018	€	959,844

C) Allocations Regione Piemonte Law No. 61 of 12/29/2000 € 451,362

These reflect the destination of the administrative sanctions applied pursuant to art. 54 Legislative Decree 152/99 to be applied to fund the development of actions aimed at preventing and reducing the pollution in bodies of water.

Movement, which has been computed to the Financial Statement, in the fiscal year, was as follows:

- Balance as of December 31 st 2017	€	451,362
- Allocation in the fiscal year	€	0
Balance as of December 31st 2018	€	451,362

D) Allocations for Territory management charges € 6,789,763

The amount reflects the best estimate of the charges and of the potential risks connected to Territory management activities.

- Balance as of December 31 st 2017	€	6,594,520
- Allocation in the fiscal year	€	4,936,586
- Use in the fiscal year	€	(61,131)
- Adjustment of estimate in the fiscal year	€	(4,680,212)
Balance as of December 31st 2018	€	6,789,763

E) Provisions for charges to other companies € 650,000

The provisions reflect the potential charges deriving from the commitments made by the shareholders for patronage of the Dexia-BIIS loan to APS S.p.A. in bankruptcy since 2013. The provisions were not subject to any movements during the current fiscal year.

- Balance as of December 31 st 2017	€	650,000
- Allocation in the fiscal year	€	0
- Adjustment of estimate in the fiscal year	€	0
Balance as of December 31st 2018	€	650,000

18. Deferred tax liabilities € 337,834

The amount includes the deferred charges for income taxes (IRES and IRAP), which are computed at the rates in force on revenues with deferred taxation and on the advanced deduction costs.

The entry (Euro 341,798 in the previous fiscal year) shows a reduction from the previous fiscal year, due to the combined effect of de-taxation of significant taxable revenues in future fiscal years, taxation of revenues that were computed in previous fiscal years and taxed in the current fiscal year.

These effects are itemized in the table below:

Description	Balance as of 12/31/2017	Costs transferred to 2018	% IRES/IRAP	Payable IRES/IRAP Transfers as of	Incremental costs in 2018	% IRES/IRAP	New payable IRES/IRAP as at 12/31/2018	Balance as of 12/31/2018
Advanced Depreciation	155,966							155,966
Receivable interest in arrears	150,953	(179,324)	24.00%	(43,037)	208,764	24.00%	50,103	158,018
amortized cost FTA financial liabilities	34,879	(45,958)	24.00%	(11,030)				23,850
TOTAL	341,798	(225,282)		(54,067)	208,764		50,103	337,834
CHANGE IN DEFERRED TAX DEBTS							3,964	

19. Other non-current liabilities € 50,620,545

This item is made up as follows:

		12/31/2018	12/31/2017
• Acquapoint caution money	€	470,022	431,600
• Contributions to pay out	€	68,747	92,747
• Multi-annual deferred income	€	50,081,776	51,779,102
Total	€	50,620,545	52,303,449

In application of IAS 16, item "Multi-year unearned income" includes the contribution shares for systems which were cashed and computed to the fiscal years of competence, as related to the depreciation of the assets they refer to.

Furthermore, the "Multi-year deferred incomes" also includes the "bound revenue" share to be allocated to the coverage of investments (FoNI) Euro 11,895,728 (art. 42 Annex "A" AEEG resolution no. 585/2012).

20. Commercial payables € 90,399,314

PREPAYMENTS € 151,282

The entry (Euro 195,253 in the previous fiscal year) includes the amounts advanced by users for works still to be completed as of closing date of the financial statement

DUE TO SUPPLIERS € 59,816,843

Due to suppliers refers to:

		12/31/2018	12/31/2017
• Italian suppliers	€	27,741,747	24,492,883
• Foreign suppliers	€	99,241	170,886
• Invoices to be received	€	31,975,855	32,784,135
Total	€	59,816,843	57,447,904

All payables to suppliers fall due within the end of one year and in no case are they assisted by guarantees, in addition to the withholding amount of 0.5% on the jobs.

DUE TO SUBSIDIARIES € 6,973,022

		12/31/2018	12/31/2017
• Due to subsidiaries	€	6,973,022	5,548,259

The itemized entry in the dedicated section of the directors' report includes the payables to the subsidiaries Risorse Idriche S.p.A. and AIDA Ambiente S.r.l. and in particular includes the payables for invoices and N.C. to be received for Euro 6,268,669 (Euro 4,556,584 in the previous fiscal year).

DUE TO ASSOCIATES € 15,591

		12/31/2018	12/31/2017
• Due to associates	€	15,591	49,546

The entries itemized in the section dedicated to it in the Directors' Report, include the payables to the SAP Group deriving from the residual commercial transactions operated at normal market conditions.

DUE TO HOLDING COMPANIES		€ 1,249,214	
		12/31/2018	12/31/2017
• DUE TO HOLDING COMPANIES	€	1,249,214	1,590,207

The entry referred to in the section dedicated to it in the Directors' Report refers to commercial payables to the City of Turin, and none of them is assisted by a real guarantee on the corporate assets.

DUE TO OTHER		€ 22,193,362	
		12/31/2018	12/31/2017
• Due to others	€	22,193,362	19,578,303

This item consists mainly of commercial payables to the Operative Management Subjects for invoices to be received for contractual obligations undertaken with the same.

21. Current tax liabilities **€ 3,780,787**

These liabilities consist mainly of VAT owed in the fourth quarter of 2018 after the advance paid (Euro 2,029,858). The tax due in application of the VAT split payment system extended to subsidiaries by Public Entities on 07/01/2017 has been paid regularly by the due date established by current law.

Current fiscal liabilities are also entered under payables for Withholding tax held for employees and third parties in the amount of approximately Euro 1.7 million, this to paid on the due date.

22. Other current liabilities **€ 72,018,994**

The other payables include:

		12/31/2018	12/31/2017
• Due to Social Security Administration	€	4,067,677	3,940,249
• Accrued charges	€	0	10,501
• Deferred income	€	172,786	126,772
• From other:	€	67,778,531	64,878,608
• <i>Local Authority fees</i>	€	5,543,852	6,327,277
• <i>Contributions to Comunità Montane</i>	€	44,824,173	39,768,367
• <i>Due to SOG and Municipalities for accessory services</i>	€	520,857	915,325
• <i>Other debts to Entities and Municipalities for F/D collected on accounts</i>	€	3,097,344	2,697,301
• <i>Accruals to liquidate to employees</i>	€	6,299,465	6,102,705
• <i>Other payables</i>	€	7,416,865	8,920,251
• <i>Dividends to pay</i>	€	75,975	147,382
Total	€	72,018,994	68,956,130

Payables to social security institutions all accrue by the end of one year and in no case are they assisted by guarantee or encumbered with interest.

At the time of drawing up this financial statement, these payables were paid on their due dates.

The debt concerning the Local Authority Fees and the Levies to the Unioni Montane (Mountain Authorities), which were increased by approximately Euro 4.2 million include the relative assessments and represent the best estimation of the balance that will have to be paid after the order is made to pay the awarding Municipalities and the Mountain Unions deriving from the determinations made by the Territory Authority and on the basis of the amounts of the same communicated, adjustments excluded.

With specific reference to the contributions to the Comunità Montane, these are paid on the basis of ad hoc communications by the Territory Authority.

In particular, the Local Entity Rentals refer mainly to the amounts due for 2018 as required by Territory Authority no. 3 Torinese only during the first few months of fiscal year 2019 and in amounts referring to past periods, for some of which it was requested to pay with the corresponding receivables.

Payables to SOG and Municipalities for accessory services represent the best estimate of the fees due — based on the volumetries that will be determined by the billing processes and jobs assigned — to the SOG that is charged with special service contracts for operations on their given territory.

The amount of Other Payables to Entities and Municipalities includes payables to Entities for rentals and contributions, payables for sewer and water treatment fees due to Provider Entities for the periods preceding direct assumption of the corresponding services resulting from the collection times of the fees from the users affected, as established by the current law and by specific conventional agreements.

Notes of commentary to the entries of the Income Statement

Revenues

23. Revenues € 327,179,680

Revenues are made up as follows:

		2018	2017
– Aqueduct service	€	137,807,362	140,582,145
– Sewer service	€	45,974,813	46,380,513
– Water treatment service	€	129,666,419	129,889,958
– Hydrants	€	4,290,631	4,311,629
– Other revenues	€	9,440,455	8,987,494
Total	€	327,179,680	330,151,739

Revenues have decreased by approximately Euro 3.0 million with respect to the previous fiscal year in particular for a reduction in the value of average volumetries.

The revenues from the aqueduct, sewer and water treatment services are net of the 50% rate reduction for public municipal and provincial users for a total of Euro 5,535,423 .

All the revenues inherent to the institutional activity were obtained in the reference territory ATO 3 Torinese, as determined by the Piemonte Regional Law no. 13 of 01/20/1997 and include the best estimate of revenues accrued in the fiscal year for aqueduct, sewers, water treatment services and hydrants provided in the 293 Municipalities acquired by effect of the reunification process.

"Other Revenues" mainly includes accessory revenues from users, industrial waterworks and rain water, those that are obtained for activities performed on behalf of users and third parties, in particular as related to modification to the water and sewerage networks, revenues from analysis and treatment, Punti Acqua, sale of energy and services for no-core activities performed on the free market. The increase in respect to the previous fiscal year is due to the combined effect of greater revenues for works on behalf of third parties, connected with works for the metro, and lesser revenues for treatment of leachates recorded in the revenues for sewer and water treatment in conformity with the rules set forth by ARERA for industrial waste water, pursuant to title 4 of TICS1.

24. Revenues for planning and construction activities € 72,243,129

		2018	2017
– Revenues for planning and construction activities	€	72,243,129	62,140,413

This item refers to the “planning and construction” of assets under concession, which, as envisaged by IFRIC 12, is entered under revenues; the corresponding costs, net of the capitalized costs for internal increases, are entered under the entry “Costs for planning and construction”.

25. Other revenues € 15,479,665

The other operational revenues are composed as follows:

			2018	2017
– Contributions for current expenses	(A) €		2,776,214	3,431,667
– Other				
▪ Contribution shares in production facilities	€		3,112,886	2,990,323
▪ Other revenues	€		1,937,917	1,657,226
▪ Contingent assets and nonexistent liabilities	€		3,576,521	5,240,993
▪ Adjustment to provisions for liabilities and other charges	€		4,076,127	723,393
	(B) €		12,703,451	10,611,935
Total other revenues (A+B)	€		15,479,665	14,043,602

“Contributions for current expenses” include the incentive for producing energy from photovoltaic sources, the incentivized rate from the Green Certificates, contributions for water points and contributions for project shareholdings.

The decrease from the previous fiscal year arises mainly from the amount for the incentivizing rate from the green certificates.

“Other” includes the economic accrual amount of contributions into the plants accounts, already commented on under the entry “ multi-annual deferred income” have these notes to the accounts, in addition to the other revenues (among which receivable lease payments, reimbursements for stamps and other reimbursements),contingent assets and non-existent liabilities for the Adjustment of the estimate in addition to the adjustments made to the provision of liabilities, as already commented in the dedicated section of Liabilities in this Supplementary Note.

The comprehensive variation in this item in respect to the previous fiscal year is due to the combined effect combined effect of adjustments in the risk fund and decrease in contingent assets and non-existent liabilities.

Operating costs

26. Consumption of raw materials and consumables € 11,884,918

This entry includes:

		2018	2017
• Materials for maintenance net of changes in stock	€	5,539,556	5,123,946
• Chemicals	€	4,546,359	4,426,081
• Other materials	€	1,927,880	1,830,798
• Increases for in-house jobs	€	(128,877)	(134,147)
Total	€	11,884,918	11,246,678

This item registers an increase from the previous year deriving from greater costs for maintenance materials.

27. Costs for leased assets and services € 109,059,965

This entry includes:

			2018	2017
– Electricity:	(A) €		30,763,064	29,330,332
– Maintenance, works and services & industrial	(B) €		54,856,219	55,455,408
– General services:				
▪ Services	€		10,036,798	9,632,266
▪ Allocation to Provision for liabilities and other charges	€		819,737	1,496,926
	(C) €		10,856,535	11,129,192
– Rentals to local entities	(D) €		8,065,992	8,678,166
– Rentals and payable concessions, leases and hires	(E) €		4,518,155	4,546,399
Total costs for leased assets and services (A+B+C+D+E)	€		109,059,965	109,139,497

The increase in electric power costs is due to more power supplied by the external mains network, to manage a decrease in self-production and an increase in power generation prices in respect to the previous year.

As regards the consumption of electricity, bear in mind that the energy recovery technologies operating at the water treatment plants have allowed an overall 14.75% savings on consumption

The energy balance is demonstrated as follows:

	2018		2017	
	MWh	%	MWh	%
- Heat				
▪ Self-produced by gas-powered motors	18,505	42.96	22,305	52.45
▪ Self-produced by boilers	450	1.04	390	0.92
▪ Self-produced by DEMOSOFC plant	143	0.33		
▪ Produced by methane	23,980	55.67	19,832	46.63
Total	43,078	100.00	42,527	100.00
- Electricity:				
▪ Self-produced by gas-powered motors	21,420	8.89	25,312	10.43
▪ Self-produced by solar cells	1,176	0.49	1,278	0.53
▪ Self-produced by DEMOSOFC plant	177	0.07		
▪ Total uptake from external suppliers	218,076	90.55	216,076	89.04
Total	240,849	100.00	242,666	100.00
Total consumption	283,926	100.00	285,193	100.00
Total recovery	41,870	14.75	49,285	17.28
- Self-produced and sold electricity (Balme hydroelectric power station)	6,777		6,463	
Total self-production	48,647		55,748	
Total self-produced electricity	29,549		33,053	
- Self-produced electricity in relation to total electricity consumed	12.27		13.62	

The cost variation for Maintenance works and industrial services is due to the combined effect of a reduction in maintenance services, works on behalf of third parties and an increase in costs for transport and disposal of sludge, and gas and telephone services.

28. Payroll costs

€ 59,998,633

The payroll cost composition is the following:

		2018	2017
- Wages and salaries	€	41,572,127	41,605,066
- Social charges	€	13,550,456	13,851,240
- Severance package	€	2,701,367	2,693,499
- Pension and similar funds	€	61,591	60,143
- Other costs	€	2,113,092	1,815,219
- Increases for in-house jobs	€	0	0
Total	€	59,998,633	60,025,167

Relative to the accounting period, the average staff was composed as follows:

	Top Manag- ers	Middle Managers	Office work- ers	Laborers	Apprentices	Total
Staff as of 12/31/2017	9	30	591	327	32	989
Staff as of 12/31/2018	9	28	576	321	39	973
Change	0	(2)	(15)	(6)	7	(16)

Relative to the accounting period, the average staff was composed as follows:

- Top Managers	9
- Middle Managers	29
- Office workers	583
- Laborers	323
- Apprentices	39

The cost recorded a slight decrease in respect to the previous year due mainly to the effects of implementation of the national labor contract, compensation policies and higher costs for outsourced personnel (for needs related to implementation of technical quality) and transfer contracts. Savings derived from transfer of personnel mitigated all of this.

	Total
Staff as of 12/31/2017	989
Terminations	-25
Hires	9
Staff as of 12/31/2018	973

Outsourced work contracts, 16 units as of 12/31/2017, increased in number to 36 units as of 12/31/2018 and their costs weighed on the fiscal year for a total of Euro 1,067,500.

The transfer contracts, amounting to 5 as of 12/31/2017, decreased to 4 as of 12/31/2018 (from the subsidiary Risorse Idriche S.p.A.) and their costs weighed in the amount of Euro 314,816.

The "Other costs" item included the provisions for miscellaneous charges for € 41,400.

29. Other operating expenses **€ 21,978,257**

This entry includes:

		2018	2017
– Other tax charges	€	863,460	1,139,303
– Territory fees	€	17,594,462	16,836,660
– Other charges	€	2,578,879	2,230,317
– Allocation to provisions for liabilities and charges	€	650,567	1,404,969
– Integrated water bonus	€	290,889	0
Total	€	21,978,257	21,611,249

"Other tax charges" mainly includes charges for stamp fees, IMU, government concession taxes and other local taxes.

The entry "Territory fees" includes the best estimate of the contributions to the Mountain Unions and the operational costs of the Territory Authority and the contributions to the ARERA, depending on the resolutions passed and communications sent.

The Mountain Union calculated as indicated by the Territorial Authority on revenues for the year 2016 attributes the increase in this item to contributions.

The entry "Other charges" mainly refers to association dues, compensation for damages, contingent and non-existent assets including the economic accounting of the charges deriving from costs or adjustments of revenues whose accrual is attributable to previous fiscal years but which has never been considered previously because of objective unavailability of the certain estimate elements objectively determinable.

As already indicated above, the entry also includes "Allocations to provisions for liabilities and charges" to cover liabilities and costs involving taxation, administration and other that are certain or probable but whose exact amount or date of occurrence are not yet determinable at this moment.

Starting from the current fiscal year the item includes the cost for the "Integrated water bonus" introduced by ARERA resolution 897/2017/R/IDR and ATO resolution 697/2018, which replace the ISEE incentive used in the previous fiscal year, reducing revenues.

30. Costs for planning and construction activities**€ 69,670,035**

		2018	2017
– Costs for planning and construction activities	€	69,670,035	58,716,004

This entry refers to “Costs for planning and construction” of assets under concession, net of capitalized costs or in-house increases that, as contemplated by IFRIC 12, is entered under costs, corresponding revenues are entered under “Revenues for planning and construction”

31. Amortization, provisions and write-downs**€ 68,905,639**

The composition of this entry is as follows:

		2018	2017
– Depreciation tangible fixed assets	€	16,104,239	16,142,182
– Depreciation other intangible fixed assets	€	1,484,898	1,338,050
– Depreciation assets under concession	€	40,177,233	36,287,725
– Credits write-downs	€	5,639,269	4,653,609
– Other provisions	€	5,500,000	0
Total	€	68,905,639	58,421,566

Taking into account the presentation regarding valuation criteria, and the systematic criterion, for calculating depreciation in the fiscal year, the following ordinary rates were used:

Intangible fixed assets:

– Assets under concession (improvement of third-party’s assets and revertible assets)	Depending on the estimated technical economic-profit life of various types of reference assets
– Assets under concession (use rights)	As a function of the durations of the ATO3 and SMAT S.p.A. service convention (2033)
– Software use licenses	33.33%
– Patents	50.00%
– Expansion and development costs	20.00%
– Trademarks	10 years
– Surface rights	As a function of the estimated profit life equivalent to the durations of the Company from the date of the Articles of Association

Tangible fixed assets:

– Buildings and fences	3.50%
– Solar power plants	9.00%
– Light constructions	10.00%
– Specific plants and filtering plants	8.00%
– Metering devices	10.00%
– Laboratory and other equipment	10.00%
– Furniture and furnishings	12.00%
– Office equipments	12.00%
• Electronic machinery	20.00%
• Hardware	20.00%
• Cars	25.00%
• Motor vehicles for transport and other vehicles	20.00%
• Carbon assets	20.00%
• Polarite	11.00%
– Tanks	4.00%
– Fixed waterworks	2.50%
– Sewers	5.00%
– Water treatment plants	15.00%
– Machinery	12.00%

To the Increases of 2018 of tangible fixed assets the rates applied amount to 50% of the ones shown above, representing with the best estimate average rates as a function of the months of use.

The entry also includes the allocations deriving from prudential valuations of the commercial receivables. This allocation amounts to approximately 5.6 million Euros, with application of the new IFRS 9 principle - Financial instruments and consequence of length of receivables towards users as already referenced in the dedicated item under Assets in this Supplementary Note.

Item "Depreciation of participatory interests" includes the depreciation of SMAT S.p.A. participating interest in related company SAP S.p.A., in consideration of the results of the SAP Group. The management depreciated

for permanent impairment of value the previously mentioned share by Euro 5.5 million to align its value to the pro-rata of the Consolidated Net Equity of the SAP Group S.p.A.

This depreciation is confirmed by the impairment test carried out by an independent consultant.

Financial income and expenses

32. Financial income € 5,601,346

This entry includes:

		2018	2017
– Earnings from related parties	€	63,170	180,167
– Receivable interest and other proceeds	€	5,538,176	5,436,315
Total	€	5,601,346	5,616,482

“Proceeds from related parties” consist of the dividends paid to the parent company SMAT S.p.A. by the subsidiary AIDA Ambiente S.r.l., from interests for cash pooling with the subsidiary Risorse Idriche.

The reduction is due mainly to minor dividends received.

“Receivable interests and other financial proceeds” include receivable interest on current accounts in banks and post offices, interest arrears and other financial proceeds and dividends from other companies.

33. Financial expense € 5,258,196

The entry includes:

		2018	2017
– Payable interest and commissions on loans	€	4,974,574	4,666,188
– Other receivable interests and charges	€	283,622	356,461
– Write-down shareholdings	€	0	1,800,000
Total	€	5,258,196	6,822,649

Payable interest and commissions on loans include the charges on loans received in as investments and then purchases, in addition to the amount pertaining to interest on the debenture loan. The entry also includes adjustment of the charges as a function of the amortized cost method.

The Other payable interests and charges include, on the other hand, the prudential count of interest on arrears for overdue debts (according to current law) and financial charges deriving from the actuarial valuation of the Severance Fund and other benefits to employees according to IAS 19.

The depreciation in shares is inserted in the Amortization, depreciation and write-downs item mentioned above.

34. Income Taxes € 21,951,463

This entry includes:

		2018	2017
– IRAP	€	3,566,582	3,955,638
– IRES	€	18,660,082	21,434,152
– Taxes relative to previous fiscal year	€	(116,119)	836,760
– Change in payable deferred taxes	€	(3,964)	(203,740)
– Change in receivable deferred taxes	€	(155,118)	(481,291)
Total	€	21,951,463	25,541,519

In the scope of current taxes, IRES decreased following a decrease in the gross tax amount, as well as in the relative base taxable income. The fiscal variation on profit before taxes basically produced the same effects as in the previous tax period (specifically, there is a slight increase in nondeductible costs for the fiscal year). The reduction in IRAP in respect to the previous fiscal year is due to the lesser result before taxes.

The taxes relative to the previous fiscal year (lesser taxes) are mainly referred to the additional Financial Statements SC 2017 and IRAP 2017, from which the increased deductible costs in respect to the previous transmission emerged.

The reconciliation between the ordinary rate and the actual rate is shown in the following schedule:

		2018	2017
- Result before taxes	€	73,748,177	85,969,426
- Applicable theoretical rate	%	24	24
- Theoretical IRES	€	17,699,562	20,632,662

Effects of the variations in increase (diminution) versus the theoretical rate:

- IRES on nondeductible costs	€	4,801,908	2,683,648
- IRES on other permanent differences	€	(3,841,389)	(1,882,158)
- Total effect of changes (increase/decrease) in revenue	€	960,520	801,490
- Current IRES (theoretical IRES + IRES on revenue changes)	€	18,660,082	21,434,153
- Deferred IRES	€	(95,341)	(634,000)
- Current + deferred IRES (total actual)	€	18,564,741	20,800,153
Actual rate	%	25.17	24.19

In consideration of the special nature of the correlated taxable basis, no consideration was given to IRAP as for the purposes of the previous table, which refers only to IRES.

Other information

Below is the information regarding the commitments undertaken by the Company (I), to determine “Fair value” (II), to manage financial risks (III), to fees to the Directors and Auditors (IV), to the fees paid to the Auditing Firm (V), to the relationships with related parties (VI) and to the significant events occurring after December 31st 2018 (VII).

I. Commitments undertaken by the Company

The Company issued, equally to IRETI S.p.A., letter of commitment to financial support of Acque Potabili S.p.A. for Euro 2.5 million with validity until 12/31/2019.

II. Determination of the “fair value”: supplementary information

Concerning the valuation at fair value of the financial instruments in conformity with the requirements of IFRS7 we specify the following:

Assets

- Non-current financial assets – receivables:	Book value in financial statement is the “fair value” of the same
- Cash and cash equivalents:	Book value in financial statement is the “fair value” of the same
- Shareholdings available for sale:	Book value in financial statement is the “fair value” of the same

Liabilities

- Loans at variable rate:	Book value in financial statement is the “fair value” of the same
- Commercial payables:	Book value in financial statement is the “fair value” of the same

III. Financial risk management

In conformity with the aforesaid IFRS 7, we specify that SMAT S.p.A., in the ordinary development of own operating assets, is potentially exposed to financial liabilities already commented on in the Directors’ Report.

IV. Fees to Directors and Auditors

Below is the itemization of fees to the Directors and Auditors of SMAT Torino S.p.A.: for the financial statements closed as of December 31st 2018 and 2017.

		2018	2017
Directors	€	267,647	218,255
Auditors	€	98,800	72,800

The fees for the amounts deliberated by the Shareholder Meeting in addition to the obligatory contribution. In light of the line taken by the Constitutional Court and the opinion of Utilitalia relative to application of art. 4 of Legislative Decree 95/2012, the Shareholder Meeting on 6 December 2018 resolved:

- to cancel the reduction of emoluments for Members of the Board of Directors implemented on 01.26.2015, equal to a gross total of Euro 35,608.80, since the company managing general services is not required to implement this reduction;
- to subsequently acknowledge to the Board of Directors, with application as of the appointment of the Board of Directors on September 27th 2017, total annual gross compensation of Euro 225,000.00, attributing to the Board of Directors the right to divide the amount among the corporate roles set forth in the Articles of Association.

Following the issue on the regulated market of the nonconvertible debenture loan, as of 13 April 2017, the company acquired the new status of Public Interest Entity in accordance with art. 16 of Legislative Decree January 27th 2010 no. 39 and art. 17 of Reg. EU 537/2014.

The Board of Statutory Auditors is required to take on the role attributed by the law as Committee for internal control and review of accounting, and therefore perform new functions, which are more complex and require more responsibility.

The Shareholders Meeting on December 6th 2018 therefore resolved:

to adjust the compensation of the Board of Statutory Auditors, for the increased activities derived from the new status of Public Interest Entity, acknowledging, with application as of 11 April 2017, the Chairman of the Board of Statutory Auditors annual gross compensation of Euro 40,000.00 and each of the two Board Members annual gross compensation of Euro 27,500.00.

V. Fees to the Auditing Firm

The fees owed to the Auditing Firm Deloitte & Touche S.p.A. for its services of accounting audit of the financial statement and consolidated financial statement as of December 31st 2018 amounts to Euro 66,000 and Euro 2,000 for various complementary services.

VI. Relationships with “related parties”

The operations developed with the related parties have been performed at standard market conditions and are based on rules that ensure their transparency and well as their substantial procedural fairness.

Below is the itemization of the equity and economic balances inherent to operations with related parties for fiscal year ending as of December 31st 2018

	Fiscal year 2018					
	Total revenues	Total operating costs	Financial proceeds	Commercial receivables and other current assets	Commercial debts and other current liabilities	Current financial assets
CITY OF TURIN	4,074,383	1,759,413	-	3,655,770	1,249,214	-
RISORSE IDRICHE	175,177	3,107,731	3,141	1,754,203	6,386,829	2,565,589
AIDA AMBIENTE	75,384	1,339,226	60,029	120,064	586,193	-
SAP SPA formerly SVILUPPO IDRICO	64,023	-	-	52,323	15,591	-
ACQUEDOTTO MONFERRATO	5,002	-	-	5,002	-	-
Total related parties	4,382,269	6,206,370	63,170	5,587,362	8,237,827	2,565,589
Total items of the state of account	414,902,474	272,591,808	5,601,346	249,165,018	162,418,308	2,565,589
% impact on total book items	1.06%	2.28%	1.13%	2.24%	5.07%	100.00%

VII. Contributions pursuant to Law 4 August 2017 no. 124, art. 1, section 125

Over the course of the fiscal year now concluding, SMAT collected the following contributions from Public Administrations, net of contributions for private hook-ups collected from users.

Date collected	Dispensing subject	Memo	Amount	Contribution c/fiscal year	Contributions c/Systems
3/15/2018	CITY OF TURIN	RESOLUTION OF INTERFERENCE INHERENT TO WORKS ON THE ROADWAY PROJECT "G2 CIRCONVALLAZIONE VENARIA-BORGARO" LOT I AND LOT II	750,854	-	750,854
7/10/2018	CITY OF TURIN	RESOLUTION OF INTERFERENCE INHERENT TO WORKS ON THE ROADWAY PROJECT "G2 CIRCONVALLAZIONE VENARIA-BORGARO" LOT I AND LOT II	555,496	-	555,496
5/2/2018	CITY OF CARIGNANO	AUTUMN FLOOD 2000 – THIRD AND FOURTH TRANSITIONAL PLAN - PURIFICATION AND SEWER SYSTEM WORKS	396,648	-	396,648
2/28/2018	CITY OF CASELLE TORINESE	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
11/8/2018	CITY OF PEROSA CANAVESE	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/2/2018	CITY OF RIVAROSSA	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/27/2018	CITY OF RIVOLI	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/27/2018	CITY OF RIVOLI	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/27/2018	CITY OF RIVOLI	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	500	500	
2/5/2018	CITY OF SAN FRANCESCO AL CAMPO	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/27/2018	CITY OF SETTIMO TORINESE	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
5/16/2018	CITY OF TURIN	LIBANO - SAFE HEALTH AND WATER MANAGEMENT LEBANON	21,000	21,000	
7/27/2018	CITY OF TRANA	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	2,000	2,000	
2/5/2018	CITY OF VILLAFRANCA PIEMONTE	TENDER COSTS FOR THE INSTALLATION OF THE SMAT WATER POINT	1,000	1,000	
10/11/2018	CITY OF VILLASTELLONE	CONSTRUCTION OF SEPARATE SEWER SYSTEM ON VIALE SIGNORINI	74,998	-	74,998
4/18/2018	FONSERVIZI	TRAINING PROGRAM "SAFE AND RESPONSIBLE BUSINESS"	18,042	18,042	
6/12/2018	FONSERVIZI	TRAINING PROGRAM "COMPUTING SECURITY AND CORPORATE MANAGEMENT"	33,240	33,240	
1/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
2/28/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
3/29/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION BALME	228,862	228,862	
3/29/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
4/30/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
5/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
6/28/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION BALME	110,667	110,667	
7/2/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
7/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
8/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	26,516	26,516	
9/28/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION BALME	57,757	57,757	

Date collected	Dispensing subject	Memo	Amount	Contribution c/fiscal year	Contributions c/Systems
10/1/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	17,983	17,983	
10/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION ROSTA	4,209	4,209	
10/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	17,983	17,983	
11/30/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	32,091	32,091	
11/30/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	17,983	17,983	
11/30/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	1,162	1,162	
11/30/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION ROSTA	29,244	29,244	
12/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	3,242,875	3,242,875	
12/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION BALME	169,122	169,122	
12/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	688,444	688,444	
12/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION ROSTA	934	934	
12/31/2018	GSE	INCENTIVE FOR SOLAR POWER PRODUCTION CASTIGLIONE	24,862	24,862	
5/16/2018	TURIN POLYTECHNIC INSTITUTE*	DEMOSOFC - SYSTEM WITH FUELS CELLS SUPPLIED WITH BIOGAS	166,062	-	166,062
2/7/2018	UNIVERSITY OF PAVIA	PERSEO - PERSONAL RADIATION SHIELDING FOR INTERPLANETARY MISSIONS	8,693	8,693	
5/30/2018	UNIVERSITY OF PAVIA	PERSEO - PERSONAL RADIATION SHIELDING FOR INTERPLANETARY MISSIONS	4,668	4,668	
2/28/2018	UNIVERSITY OF TURIN	AQUALITY - STUDY ON ADVANCED OXIDATION PROCESSES FOR EMERGING POLLUTANTS	130,984	130,984	
Total			7,034,487	5,090,430	1,944,058

*The Turin Polytechnic Institute fills the role of coordinator for the project DEMOSOFC financed by the European Union as part of the Horizon 2020 program initiated on 1 September 2015, which foresees partnering with five Italian and European members, including SMAT.

VIII. Significant events occurring after December 31st 2018

Significant events occurring after 12/31/2018 are itemized in the dedicated section of the Directors' Report.

Proposals regarding the deliberations on SMAT S.p.A. fiscal year financial statement as of December 31st 2018

Dear Shareholders,

Having ascertained that there are no amounts still to be depreciated as related to the costs for installations, revamping, research and development or advertising, and that the regulations of art. 2426 of the Italian Civil code, paragraph 5, as related to what is shown above, we propose you to approve the Financial Statements of SMAT S.p.A. for fiscal year 2018, which closed with a net profit of Euro 51,796,714.36 as a whole and in the different items.

Since the Shareholder Meeting of May 6th 2014 had acknowledged Agreement pursuant to art. 30 TUEL approved by the majority of the Shareholders both in numerical and share terms, and that art. 2 of the same agreement involves the following allocation of the profit obtained:

- 5% to the Legal reserve

And of the remaining 95%

- 80% to the Reserve bound to the implementation of the Economic and Financial Plan;
- 20% to dividends to the Shareholders to promote environmental protection measures.

The Board of Directors proposes that the Shareholder Meeting distribute the net operating income as follows:

- 5% to the Legal reserve amounting to € 2,589,835.72;
- 80% to the Reserve bound to the implementation of the Economic and Financial Plan amounting to € 39,365,502,91;
- 20% as dividend to the Shareholders for an total amount of € 9,841,375.73, corresponding to a unit dividend rounded off to € 2.02 for each of the 4,859,988 ordinary shares that have right to it, excluded the own shares held by SMAT S.p.A., and therefore a total rounded up dividend of € 9,817,195.96. Consequently, the amount of the net residual profit to be brought forward results to be € 24,179.77.

Without prejudice to what has been described above and taking into account the legal obligations, the Board of Directors gives way to the Assembly for decisions related to the destination of the operating profit of fiscal year 2018

Turin, May 29th 2019

**For the Board of Directors,
the Chairman**
Paolo ROMANO

SUBSIDIARIES COMPANIES FINANCIAL STATEMENT PROSPECTUS

RISORSE IDRICHE S.P.A.
AIDA AMBIENTE S.R.L.





FINANCIAL STATEMENTS OF RISORSE IDRICHE S.p.A.
AS OF DECEMBER 31st 2018

FINANCIAL STATEMENTS
STATEMENT OF ASSETS AND LIABILITIES
INCOME STATEMENTS



Risorse Idriche S.p.A.

Company of the SMAT Group

Registered office in TORINO – C.so XI Febbraio, 14

Share capital fully paid Euro 412,768,72

Registered at the Turin Chamber of Commerce - Taxpayer ID and registration no. in the Register of Companies

06087720014

VAT no. 06087720014 - Economic & Administrative Repertoire no: 759524

Subjected to the direction and coordination of SMAT TORINO S.p.A.

FINANCIAL STATEMENTS AS OF 12/31/2018

STATEMENT OF ASSETS AND LIABILITIES AND FINANCIAL STATEMENT PURSUANT TO ARTICLES 2424-2425 OF THE ITALIAN CIVIL CODE

STATEMENT OF ASSETS AND LIABILITIES

ASSETS	12/31/2018	12/31/2017
A) CREDITS TO SHAREHOLDERS FOR PAYMENTS STILL DUE		
Receivables due for payments still due and called up	0	0
Total due from Shareholders (A)	0	0
B) FIXED ASSETS		
<i>I. Intangible fixed assets</i>		
1) Plant and expansion costs	0	0
2) Development costs	0	0
3) Intangible fixed assets & intellectual property rights	0	0
4) Concessions, licenses, trademarks and similar rights	0	0
5) Goodwill	261,114	304,633
6) Assets under construction and payments on account	0	0
7) Other	0	0
Total intangible fixed assets (I)	261,114	304,633
<i>II. Tangible fixed assets</i>		
1) Land and buildings	0	0
2) Plants and machinery	0	0
3) Industrial and commercial equipment	0	0
4) Other assets	7,433	10,179
5) Assets under construction and payments on account	0	0
Total tangible fixed assets (II)	7,433	10,179
<i>III. Financial assets</i>		
1) Participating interests in:		
a) Subsidiaries	0	0
b) associates	0	0
c) holding companies	0	0
d) companies subjected to the control of the holding companies	0	0
d-bis) other companies	0	0
Total participating interest	0	0
2) Receivables:		
a) from subsidiaries	0	0
b) from associates	0	0
c) from holding companies	0	0
d) from companies subjected to the control of the holding companies	0	0
d-bis) from others	0	0
Total receivables	0	0
3) Other securities	0	0
4) Financial derivative instruments	0	0
Total financial assets (III)	0	0
Total fixed assets (B)	268,547	314,812

ASSETS	12/31/2018	12/31/2017
C) WORKING CAPITAL		
I. Inventory		
1) Raw, subsidiary materials and consumables and commodities	0	0
2) Works in progress and semi-finished goods	0	0
3) Works in progress to order	0	0
4) Finished products and goods	0	0
5) Advances	0	0
Total inventory (I)	0	0
II. Receivables		
1) from customers (within 12 months)	0	0
2) Due from subsidiaries	0	0
3) Due from associates	0	0
4) from holding companies:		
– Within 12 months	6,376,947	4,764,770
– After 12 months	9,882	9,882
Total due from holding companies (4)	6,386,829	4,774,652
5) From companies subjected to the control of the holding companies	0	0
4bis) Tax receivables (within 12 months)	22,779	16,473
4ter) Prepaid taxes	59,434	66,017
5 quater) From other:	103,412	221,174
– Within 12 months	102,772	220,534
– After 12 months	640	640
Total receivables (II)	6,572,454	5,078,316
III. Financial assets other than fixed assets		
1) Shareholdings in subsidiaries	0	0
2) Shareholdings in associate	0	0
3) Shareholdings in holding companies	0	0
3 bis) Shareholdings in companies subjected to the control of the holding companies	0	0
4) Other shareholdings	0	0
5) Financial derivative instruments	0	0
6) Other securities	0	0
Total financial assets other than fixed assets (III)	0	0
IV. Cash and cash equivalents		
1) Bank and Post Office deposits	1,260	1,278
2) Checks	0	0
3) Cash and cash equivalents	367	264
Total cash and cash equivalents (IV)	1,627	1,542
Total working assets (C)	6,574,081	5,079,858
D) ACCRUALS AND DEFERRALS		
Accrued income	0	0
Deferred charges	18,013	455
Total accrued income and deferred charges (D)	18,013	455
TOTAL ASSETS	6,860,641	5,395,125

STATEMENT OF ASSETS AND LIABILITIES

NET EQUITY AND LIABILITIES	12/31/2018	12/31/2017
A) NET EQUITY		
I. Capital	412,769	412,769
II. Share premium reserve	0	0
III. Revaluation reserve	0	0
IV. Legal reserve	85,957	85,957
V. Statutory reserve	0	0
VI. Other reserves distinctly indicated		
1) Optional reserve	63,291	63,291
2) Prepaid amortizations reserve	0	0
3) Payments into capital account	0	0
4) Reserved for rounding up euros	1	0
Total other reserves (VI)	63,292	63,291
VII. Reserve for hedging operations of expected financial flows	0	0
VIII. Profit/(loss) carried forward	69,378	64,665
IX. Profit (loss) for the year	34,458	4,713
X. Negative reserve of own shares in portfolio	0	0
Total Net Equity (A)	665,854	631,395
B) PROVISIONS FOR BAD AND DOUBTFUL DEBTS		
1) Severance fund and similar applications	0	0
2) Provisions for taxes including deferred taxes	0	0
3) Derivative financial instruments payable	0	0
4) Other	185,689	279,189
Total provisions for risks and charges (B)	185,689	279,189
C) SEVERANCE FUND FOR EMPLOYEES	1,068,708	1,062,284
D) ACCOUNTS PAYABLE		
1) Bonds	0	0
2) Convertible Bonds	0	0
3) Due to shareholders for loans	0	0
4) Due to banks	239	193
5) Due to others	0	0
6) Advances	0	0
7) Due to suppliers (within 12 months)	192,739	118,284
8) Payables in the form of securities	0	0
9) Due to subsidiaries	0	0
10) Due to associates	0	0
11) Due to holding companies:		
– Within 12 months	4,262,279	2,878,631
– After 12 months	0	0
Total payables to holding companies (11)	4,262,279	2,878,631
11 bis) Due to companies subjected to the control of the holding companies	0	0
12) Tax debts (within 12 months)	55,323	46,143
13) Debts to Social Security institutions (within 12 months)	149,187	125,212
14) Other payables (within 12 months)	280,623	253,794
Total payables (D)	4,940,390	3,422,257
E) ACCRUALS AND DEFERRALS		
Accrued charges	0	0
Deferred income	0	0
Total accrued charges and deferred income (E)	0	0
Total and net payables	6,860,641	5,395,125

INCOME STATEMENT

A) PRODUCTION WORTH	2018	2017
1) Revenues from sales and services	3,011,280	2,409,066
2) Changes in Inventory, work in progress, semi-finished and finished goods	0	0
3) Variations of the activities in progress on order	0	0
4) Increase in fixed assets for in-house work	0	0
5) Other revenues and proceeds		
a) Contributions in operating account	0	23,831
b) Other	106,077	8,226
Other revenues and proceeds (5)	106,077	32,057
Total Reproduction Worth (A)	3,117,357	2,441,123
B) PRODUCTION COSTS)		
6) For raw, subsidiary, expendable materials and goods	20,936	21,015
7) For services	885,893	375,983
8) For leased assets	112,712	110,970
9) For employees:		
a) Wages and salaries	1,298,933	1,181,744
b) Social contributions	450,499	419,274
c) Severance package	106,955	98,201
d) Pensions and similar obligations	610	3,719
e) Other costs	8,980	92,307
Total employee costs (9)	1,865,977	1,795,245
10) Amortization and depreciation:		
a) Amortization of intangible fixed assets	43,519	43,519
b) Amortization of material fixed assets	2,504	4,652
c) Other write-downs of fixed assets	0	0
d) Bad/doubtful debts in the working assets and liquid assets	0	0
Total amortizations and depreciation (10)	46,023	48,171
11) Changes in inventory of raw, subsidiary, expendable materials and goods	0	0
12) Allocations for risks	0	0
13) Other allocations	0	0
14) Other overhead charges	135,325	72,139
Total production costs (B)	3,066,866	2,423,522
Difference between production cost and production worth (A-B)	50,491	17,601
C) FINANCIAL CHARGES AND PROCEEDS		
15) Proceeds from shareholdings, with separate indication of those relative to subsidiaries and associates and those relative to holding companies and companies subjected to the control of the latter	0	0
16) Other financial proceeds		
a) from credit entered under fixed assets, with separate indication of those from subsidiaries and associates and those from holding companies and from companies subjected to the control of the latter	0	0
b) from securities entered under fixed assets other than shareholdings	0	0
c) from securities entered under working assets other than shareholdings	0	0
d) Proceeds other than the previous ones, with separate indication of those from subsidiaries and associates and those from holding companies and from companies subjected to the control of the latter	0	1,181
Total financial proceeds (16)	0	1,181

2018

2017

17)	Financial interest and charges, with separate indication of those from subsidiaries and partner companies and from holding companies:		
a)	Interest due to Holding Company	0	0
b)	Loans	0	0
c)	Other	3,141	1,705
	Total interest and other financial charges (17)	3,141	1,705
17bis)	Profits and losses from exchanges	0	0
	Total Financial proceeds and charges (C) (15 + 16 - 17 +/- 17 bis)	(3,141)	(524)
D) ADJUSTMENT OF VALUE OF LONG TERM INVESTMENTS			
18)	Revaluations of :		
a)	Shareholdings	0	0
b)	Long-term Investments other than Shareholdings	0	0
c)	Securities entered under working assets other than Shareholdings	0	0
d)	Financial derivatives	0	0
	Total revaluations (18)	0	0
19)	Write-downs of:		
a)	Shareholdings	0	0
b)	Long-term Investments other than Shareholdings	0	0
c)	Securities entered under working assets other than Shareholdings	0	0
d)	Financial derivatives	0	0
	Total adjustment to the value of financial assets (D) (18 - 19)	0	0
	Result before taxes (A - B +/- C +/- D)	47,350	17,077
20)	Income tax for the year:		
a)	Current taxes	6,309	12,780
b)	Deferred and prepaid taxes	6,583	(416)
	Total income tax for the year (22)	12,892	12,364
21)	Profit (loss) for the year	34,458	4,713

AIDA AMBIENTE S.R.L. FISCAL YEAR BALANCE SHEET

AS OF DECEMBER 31st 2018

FINANCIAL STATEMENTS
STATEMENT OF ASSETS AND LIABILITIES
INCOME STATEMENT

Aida Ambiente S.r.l.

Company of the SMAT Group subject to management and coordination by SMA Torino S.p.A.

Registered office in PIANEZZA – Via Collegno, 60

Share capital fully paid Euro 100,000.00

Registered at the TORINO Chamber of Commerce

Tax registration number and VAT: 09909860018 Rae no.: 109034

FINANCIAL STATEMENTS AS OF 12/31/2018

STATEMENT OF ASSETS AND LIABILITIES AND FINANCIAL STATEMENT PURSUANT TO ARTICLES 2424-2425 OF THE ITALIAN CIVIL CODE

STATEMENT OF ASSETS AND LIABILITIES

ASSETS	12/31/2018	12/31/2017
A) CREDITS TO SHAREHOLDERS FOR PAYMENTS STILL DUE		
Receivables due for payments still due and called up	0	0
Total due from Shareholders (A)	0	0
B) FIXED ASSETS		
<i>I. Intangible fixed assets</i>		
1) Plant and expansion costs	0	0
2) Development costs	0	0
3) Intangible fixed assets & intellectual property rights	0	0
4) Concessions, licenses, trademarks and similar rights	559	496
5) Goodwill	0	0
6) Assets under construction and payments on account	0	0
7) Other	4,557	4,729
Total intangible fixed assets (I)	5,116	5,225
<i>II. Tangible fixed assets</i>		
1) Land and buildings	0	0
2) Plants and machinery	8,432	8,657
3) Industrial and commercial equipment	47,209	49,877
4) Other assets	6,099	5,178
5) Assets under construction and payments on account	0	0
Total tangible fixed assets (II)	61,740	63,712
<i>III. Financial assets</i>		
1) Shareholdings in:		
a) Subsidiaries	0	0
b) associates	0	0
c) holding companies	0	0
d) companies subjected to the control of the holding companies	0	0
d-bis) other companies	0	0
Total participating interest	0	0
2) Receivables:		
a) from subsidiaries	0	0
b) from associates	0	0
c) from holding companies	0	0
d) from companies subjected to the control of the holding companies	0	0
d-bis) from others	0	0
Total receivables	0	0
3) Other securities	0	0
4) Financial derivative instruments	0	0
Total financial assets (III)	0	0
Total fixed assets (B)	66,856	68,937

ASSETS	12/31/2018	12/31/2017
C) WORKING CAPITAL		
<i>I. Inventory</i>		
1) Raw, subsidiary materials and consumables and commodities	0	0
2) Works in progress and semi-finished goods	0	0
3) Works in progress to order	0	0
4) Finished products and goods	0	0
5) Advances	0	0
Total inventory (I)	0	0
<i>II. Receivables</i>		
1) Towards clients:		
- Within 12 months	78,525	19,746
- After 12 months	0	0
Total credits to clients (1)	78,525	19,746
2) Due from subsidiaries	0	0
3) Due from associates	0	0
4) from holding companies:		
- Within 12 months	586,193	738,596
- After 12 months	0	0
Total due from holding companies (4)	586,193	738,596
5) From companies subjected to the control of the holding companies	0	0
5 bis) Tax receivables (within 12 months)	108,152	183,054
5 ter) Prepaid taxes	8,077	7,569
5 quater) From other:		
- Within 12 months	2,373	1,302
- After 12 months	0	0
Total receivables (II)	783,320	950,267
<i>IV. Financial assets other than fixed assets</i>		
1) Shareholdings in subsidiaries	0	0
2) Shareholdings in associate	0	0
3) Shareholdings in holding companies	0	0
3 bis) Shareholdings in companies subjected to the control of the holding companies	0	0
4) Other shareholdings	0	0
5) Financial derivative instruments	0	0
6) Other securities	0	0
Total financial assets other than fixed assets (III)	0	0
<i>V. Cash and cash equivalents</i>		
1) Bank and Post Office deposits	531,009	407,679
2) Checks	0	0
3) Cash and cash equivalents	162	107
Total cash and cash equivalents (IV)	531,171	407,786
Total working assets (C)	1,314,491	1,358,053
E) ACCRUALS AND DEFERRALS		
Accrued income	0	0
Deferred charges	5,244	7,949
Total accrued income and deferred charges (D)	5,244	7,949
TOTAL ASSETS	1,386,591	1,434,939

STATEMENT OF ASSETS AND LIABILITIES

NET EQUITY AND LIABILITIES	12/31/2018	12/31/2017
A) NET EQUITY		
I. Capital	100,000	100,000
II. Share premium reserve	0	0
III. Revaluation reserve	0	0
IV. Legal reserve	20,000	20,000
V. Statutory reserve	0	0
VI. Other reserves distinctly indicated		
1) Optional reserve	353,014	353,014
2) Prepaid amortizations reserve	0	0
3) Payments into capital account	0	0
4) Reserved for rounding up euros	1	0
Total other reserves (VI)	353,015	353,014
VII. Reserve for hedging operations of expected financial flows	0	0
VIII. Profit/(loss) carried forward	47,350	47,350
IX. Profit (loss) for the year	173,097	117,704
X. Negative reserve of own shares in portfolio	0	0
Total Net Equity (A)	693,462	638,068
B) PROVISIONS FOR BAD AND DOUBTFUL DEBTS		
1) Severance fund and similar applications	0	0
2) Provisions for taxes including deferred taxes	0	0
3) Derivative financial instruments payables	0	0
4) Other	0	0
Total provisions for risks and charges (B)	0	0
C) SEVERANCE FUND FOR EMPLOYEES	128,032	114,224
D) ACCOUNTS PAYABLE		
1) Bonds	0	0
2) Convertible Bonds	0	0
3) Due to shareholders for loans	0	0
4) Due to banks	0	0
5) Due to others	0	0
6) Advances	0	0
7) Due to suppliers (within 12 months)	293,465	193,414
8) Payables in the form of securities	0	0
9) Due to subsidiaries	0	0
10) Due to associates	0	0
11) Due to holding companies:	119,842	231,466
11 bis) Due to enterprises subjected to the control of the holding companies	0	0
12) Tax debts (within 12 months)	19,930	17,869
13) Due to social security institutions (within 12 months)	34,491	33,388
14) Other payables (within 12 months)	97,369	206,510
Total payables (D)	565,097	682,647
E) ACCRUALS AND DEFERRALS		
Accrued charges	0	0
Deferred income	0	0
Total accrued charges and deferred income (E)	0	0
Total and net payables	1,386,591	1,434,939

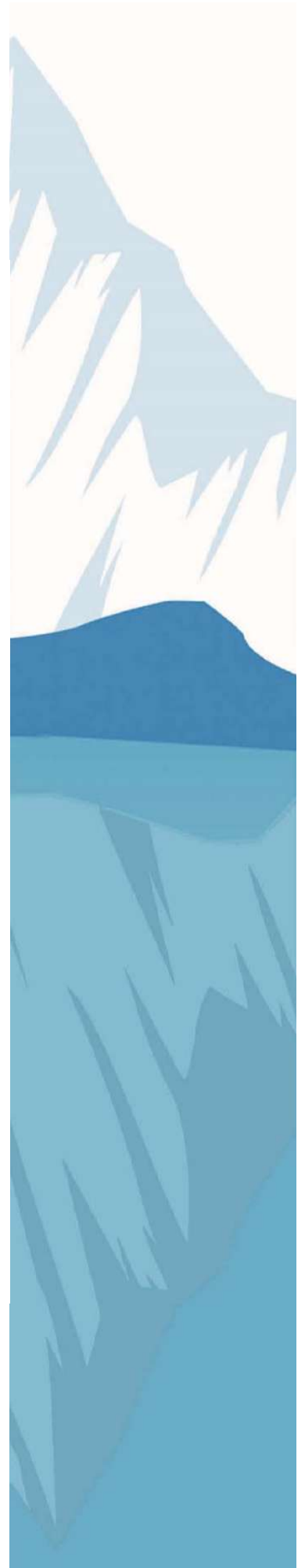
INCOME STATEMENT

A) PRODUCTION WORTH	2018	2017
1) Revenues from sales and services	1,481,051	1,348,045
2) Change in inventory of assets under construction, semi-finished and finished goods	0	0
3) Change in works in progress to order	0	0
4) Increase in fixed assets for in-house work	0	0
5) Other revenues and proceeds		
a) Contributions in operating account	0	0
b) Other	67,813	25,508
Other revenues and proceeds (5)	67,813	25,508
Total Reproduction Worth (A)	1,548,864	1,373,553
B) PRODUCTION COSTS)		
6) For raw, subsidiary, expendable materials and goods	87,832	86,456
7) For services	560,679	534,633
8) For leased assets	113,327	32,958
9) For employees:		
a) Wages and salaries	374,597	373,083
b) Social contributions	121,329	120,984
c) Severance package	28,388	27,786
d) Pensions and similar obligations	0	0
e) Other costs	270	270
Total employee costs (9)	524,584	522,123
10) Amortization and depreciation:		
a) Amortization of intangible fixed assets	575	586
b) Amortization of material fixed assets	12,722	11,989
c) Other write-downs of fixed assets	0	0
d) Write-down of receivables included in working assets, cash and cash equivalents	0	0
Total amortizations and depreciation (10)	13,297	12,575
11) Changes in inventory of raw, subsidiary, expendable materials and goods	0	0
12) Allocations for risks	0	0
13) Other allocations	0	0
14) Other overhead charges	6,799	21,007
Total production costs (B)	1,306,518	1,209,752
Difference between production cost and production worth (A-B)	242,346	163,801
C) FINANCIAL CHARGES AND PROCEEDS		
15) Proceeds from shareholdings, with separate indication of those referring to subsidiaries and associates and those referring to holding companies and ad enterprises subjected to the control of the latter	0	0
16) Other financial proceeds		
a) from receivables entered under fixed assets, with separate indication of those from subsidiaries and associates and of those from holding companies and from enterprises subjected to the control of the latter	0	0
b) from securities entered under fixed assets other than shareholdings	0	0
c) from securities entered under working assets other than shareholdings	0	0
d) Proceeds other than the previous ones, with separate indication of those from subsidiaries and associates and those from holding companies and from companies subjected to the control of the latter	53	48
Total financial proceeds (16)	53	48

	2018	2017
17) Financial interest and charges, with separate indication of those from subsidiaries and sister companies and from holding companies:		
a) Interest due to Holding Company	0	0
b) Loans	0	0
c) Other	10	0
Total interest and other financial charges (17)	10	0
17bis) Profits and losses from exchanges	(2)	0
Total Financial proceeds and charges (C) (15 + 16 - 17 +/- 17 bis)	41	48
D) ADJUSTMENT OF VALUE OF LONG TERM INVESTMENTS		
18) Revaluations of :		
a) Shareholdings	0	0
b) Long-term Investments other than Shareholdings	0	0
c) Securities entered under working assets other than Shareholdings	0	0
d) Financial derivatives	0	0
Total revaluations (18)	0	0
19) Write-downs of:		
a) Shareholdings	0	0
b) Long-term Investments other than Shareholdings	0	0
c) Securities entered under working assets other than Shareholdings	0	0
d) Financial derivatives	0	0
Total adjustment to the value of financial assets (D) (18 - 19)	0	0
Result before taxes (A - B +/- C +/- D)	242,387	163,849
22) Income tax for the year:		
a) Current taxes	69,798	46,205
b) Deferred and prepaid taxes	(508)	(60)
Total income tax for the year (22)	69,290	46,145
23) Profit (loss) for the year	173,097	117,704

BOARD OF STATUTORY AUDITORS REPORTS

CONSOLIDATED FINANCIAL STATEMENT
FINANCIAL STATEMENT



BOARD OF STATUTORY AUDITORS REPORT ON THE CONSOLIDATED BALANCE SHEET ON 31 DECEMBER 2018

At the Shareholder Meeting of the Società Metropolitana Acque Torino S.p.a.,

The consolidated Balance Sheet on 31 December 2018 of SMAT S.p.a. and its subsidiaries was approved by the Board of Directors, together with its operating budget, in time for this Board to perform all necessary controls. It includes the Balance Sheet, the Financial Statement, the Supplementary Note and the Cash-Flow Statement, is accompanied by the Management Report (the latter compiled in a single form for similar purposes according to the law governing fiscal year balance sheets), and results in profit of Euro 51,873,573.

The Consolidated Balance Sheet is compiled in conformity with international financial reporting standards (IFRS).

The task of validating conformity of the Consolidated Balance Sheet in conformity with legal standards and validation of the results of the accounting entries and consolidation is attributed to the auditing firm. Therefore, this Board of Statutory Auditors is not tasked with analytical controls relative to the contents of the balance sheet, but instead monitors the general setting of the balance sheet, its general conformity with the law as relative to its format and structure, and in this regard the Board does not have any specific comments to report.

The controls performed by the auditing firm Deloitte & Touche S.p.A. demonstrated that the values expressed in the balance sheet are reflected in the accounting results for SMAT S.p.A., in the fiscal year balance sheets of the Subsidiaries and in the relative information communicated by the same.

Our monitoring activities were carried out in compliance with the standards of good practices for the Board of Statutory Auditors issued by the National Council of Accountants and Accounting Experts, and focused on, specifically: verification of existence and adequacy of a function responsible for relations with subsidiary companies within the framework of the SMAT S.p.A. organizational structure;

- obtainment of information about the activities undertaken by subsidiary companies and relevant economic-financial and equity transactions in the scope of group relations through information received from SMAT S.p.A. directors.

After checking the Consolidated Balance Sheet, the following items emerged:

- the determination of the area of consolidation, the selection of consolidation principles for shares and the procedures adopted reflect all provisions set forth in the law;
- legal standards pertinent to the format and setting of the Balance Sheet and the Management Report were respected;
- the Management Report adequately demonstrates the economic, equity and financial situation of the Group, as well as the management progress over the course of 2018, also presenting an adequate report on relations occurring after the close of the fiscal year;
- the Consolidated Balance Sheet adheres to the facts and information this Board of Statutory Auditors has knowledge of with regard to the exercise of its monitoring duties and powers of control and inspection.

The Report by the Auditing Firm, prepared in accordance with Legislative Decree no. 39/2010, attests that the Consolidated Balance Sheet is compiled with clarity, truthfully and correctly representing the equity and financial situation, the economic result and cash flows of the Group for the fiscal year concluded on 31 December 2018.

Therefore, in light of all that expressed and the information provided by the Auditing Firm and its judgment of the same, as well as the information acquired from the Board of Directors, the Board of Statutory Auditors had no issues to formulate with regard to the Consolidated Balance Sheet for the SMAAt S.p.A. Group.

THE BOARD OF STATUTORY AUDITORS

Dr. Margherita Gardi

Dr. Ernesto Carrera

Dr. Gabriella Nardelli

REPORT BY THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDER MEETING IN ACCORDANCE WITH ARTICLE 2429, SECTION 2 OF THE CIVIL CODE

To the Shareholders of the Società Metrolipolitana Acque Torino S.p.a., over the course of the fiscal year concluded on 31 December 2018, our activities were guided by the provisions set forth in current law and in the standards for best practices of the Board of Auditors issued by the National Council of Accountants and Accounting Experts.

Monitoring and control activities

We monitored observance of the law and articles of incorporation and respect for the principles of correct administration.

We have participated in 2 Shareholder Meetings and in 9 Board of Directors Meetings and based on the information obtained, we have not detected any violations of the law and the articles of incorporation, nor any manifestly imprudent, reckless transactions in potential conflict of interest or that could compromise the integrity of the company assets.

We have collected information regarding the progress of company business from the Board Members during the Board of Directors meetings.

We have collected information about the general progress of management of the company and its foreseeable evolution from the Chairman of the Board of Directors and the Chief Executive Officer during the meetings, as well as information about the most relevant transactions, their dimensions and characteristics, performed by the company and its subsidiaries, and based on the acquired information, we have nothing in particular to report.

We have met with the auditing firm Deloitte & Touche S.p.a. several times over the course of the year, in particular on the occasion of the balance sheet review, where no facts, data or relevant information emerged that should be highlighted in this report, with reference to the auditing activities performed.

We informed the Chairman of the Board of Directors and the Chief Executive Officer of the result of the legal review and transmitted the additional report to the Board of Directors pursuant to article 11 of European Regulations.

We met with the Boards of Statutory Auditors of the subsidiary companies (Risorse Idriche S.p.a. and Aida Ambiente S.r.l.) and the labor union representatives and the Auditing Firm for the company Acque Potabili S.p.a. and no facts, data or relevant information emerged that should be highlighted in this report.

We did not uncover or receive any indications from the Board of Directors, from the management, the accounting firm, the corporate control functions or the Boards of Statutory Auditors of the subsidiary companies about the existence of any atypical and/or unusual transactions executed with third parties or parties correlated with the Company. The transactions with correlated parties, as illustrated by the Directors in the Supplemental Note, fall within normal operations and occurred in normal market conditions.

We met with the person responsible for the internal control system and no facts, data or relevant information emerged that should be highlighted in this report.

We met with the Monitoring Authority and reviewed the reports by the same Authority, and no criticalities were found in respect to correct implementation of the organizational model that should be highlighted in this report. Furthermore, it should be stated that the Organizational, Management and Control Model adopted by the company in accordance with Legislative Decree 231/2001 is constantly updated based on new presumed violations introduced into the standards.

We met with the person responsible for transparency and prevention of corruption, and as far as our competence permits, on the adequacy and functioning of the organizational framework of the company, also through the collection of information from managers of the various departments and from the auditing firm on this topic, taking into account the multiple responsibilities assigned to the Internal Auditing function, reinforcement of this function is recommended.

We acquired knowledge about and monitored, as far as our competence is relevant, adequacy and functioning of the administrative-accounting system, as well as reliability of this system, correctly representing the management through the orientation of information received from department managers, the person assigned to legal review of accounts and examination of company documents. We have no specific observations to offer in this regard.

There was no need to intervene during the Board of Directors meeting in accordance with article 2406 of the Civil Code.

No notifications were issued in accordance with article 2409, section 7 of the Civil Code.

No events resulting in censure, nor omissions, exhibitions emerged, and no complaints were received pursuant to article 2408 of the Civil Code.

Over the course of the fiscal year there were no opinions issued by the Board of Statutory Auditors in accordance with the law.

Over the course of monitoring activities, as described above, no other significant facts emerged that deemed mention in this report.

Monitoring activities in accordance with Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016

We performed monitoring activities in the role of “*Committee for internal control and accounting review*”:

- on the financial reporting process;
- on the efficacy of internal control systems, internal review and risk management;
- on legal review of the balance sheet for the fiscal year and the consolidated balance sheet;
- on the independence of the legal accounting review form, in particular with regard to provision of services not pertinent to review.

We examined the review plan activities, as well as relative reports compiled by Deloitte & Touche S.p.a., whose activities integrate the general framework of control functions set forth in legal standards, with reference to the financial reporting process.

These reports, issued in accordance with article 14 of Legislative Decree no. 39/2010, demonstrate that the fiscal year balance sheet was compiled based on the international financial reporting standards IAS/IFRS current on 31 December 2018 issued by the International Accounting Standards Board and adopted by the European Union. The balance sheet is compiled with clarity, truthfully and correctly representing the equity and financial situation, and the economic result of the Group for the fiscal year concluded on 31 December 2018.

Assignment of additional tasks to the accounting firm and other linked subjects and relative costs.

In the role of Committee for Internal Control and Accounting review, we verified that any services different from accounting review provided by Deloitte & Touche S.p.a. do not fall within prohibited services pursuant to article 5, section 1 of EU regulation no. 537/2014 and that these services do not compromise independence in respect to the Company for the execution of legal review.

We obtained evidence of accounting by the Firm of the following compensations paid to Deloitte & Touche S.p.a., for performance of the following:

- Parent Company Accounting Audit, Audit of SMAT and territorial regulation balance sheets, Debt/Payables certification services for Municipalities, Undersigning of tax declarations: Euro 66,000
- Accounting audits on subsidiaries: Euro 16,000
- Other IFRS services: Euro 2,000

Total of Euro 84,000 (payments net of VAT and expenses)

Fiscal year balance sheet

This Board of Statutory Auditors is not tasked with analytical controls relative to the contents of the balance sheet, but instead monitors the general setting of the balance sheet, its general conformity with the law as relative to its format and structure, and in this regard the Board does not have any specific comments to report.

The fiscal year balance sheet project concluded on 31 December 2018 was made available according to the terms set forth in article 2429 of the Civil Code.

We verified observance of all legal standards governing the preparation of the management report and in this regard, we have no observations to report.

As far as our knowledge permits, the Directors, in the compilation of the balance sheet, relied on International Financial Reporting Standards (IFRS), which were applied correctly.

In accordance with article 2426, no. 6 of the Civil Code, we expressed our consent to recording of a goodwill contribution of Euro 5,928,005 in the assets of the statement of assets and liabilities, due to acquisition of the corporate branches of the Società Acque Canavese S.r.l. and the Società Acque Potabili S.p.a. In observance of the adopted international financial reporting standards (IFRS), the value was determined by an external subject specifically appointed by your company, who adopted the “fair value” criterion.

Non-financial statement in accordance with Legislative Decree no. 254 dated 30 December 2016

We examined the individual non-financial Statement pursuant to Legislative Decree no. 254/2016, which was approved by the Board of Directors on 29 May 2019, verifying the framework of the document, with no additional observations to report.

Conclusions

The Board of Statutory Auditors, considering:

- all the information presented up to this point;
- all the information communicated by the Board of Directors and the auditing firm;
- all the information reported in its own reports from over the course of the 2018 fiscal year and current 2019 reporting;

hereby proposes that the Shareholder Meeting approve the fiscal year balance sheet concluded on 31 December 2018, as compiled by the Board of Directors and agreed upon with the same for the for allocation of the profit for the fiscal year.

Turin, 13 June 2019

The Statutory Board of Auditors

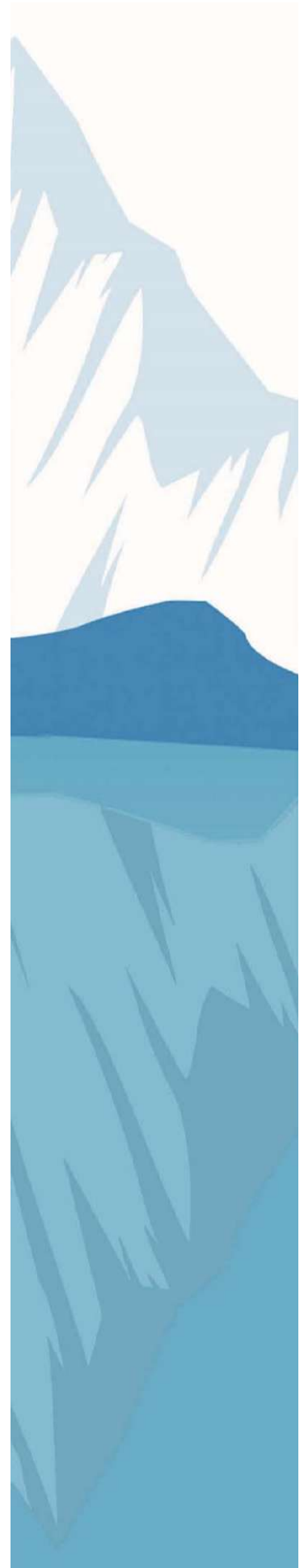
Dr. Margherita Gardi

Dr. Ernesto Carrera

Dr. Gabriella Nardelli

INDIPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENT
FINANCIAL STATEMENT



**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014**

**To the Shareholders of
Società Metropolitana Acque Torino S.p.A.**

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Società Metropolitana Acque Torino S.p.A. and its subsidiaries ("SMAT Group"), which comprise the statement of financial position as at December 31, 2018, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the SMAT Group as at December 31, 2018, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT 03049560166

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Revenue recognition – Revenues earned and not yet billed

Description of the key audit matter As disclosed in paragraph "Valuation criteria - Costs and revenues" of the notes to the financial statements, revenues from sales of water are recognized and accounted for when the service is rendered and include an accrual for revenues earned but not yet billed at year-end. This accrual, which as at December 31, 2018 amounted to Euro 64,404 thousand, is determined by estimating the revenue guaranteed by the regulated reference rate (resolution ARERA n. 617/2018/R/IDR of the 27/11/2018).

We have considered the procedure used for the determination of the above accrual to be a key matter for the audit of the Group's consolidated financial statements as of December 31, 2018 in view of: *i)* the discretionary component inherent in the estimated nature of the accrual; *ii)* the materiality of its total amount; *iii)* the effort needed to perform the related audit procedures, as well as the need to seek support from IT specialists to test the calculation algorithms adopted by the Group for the determination of the accrual.

Audit procedures performed The audit procedures performed by us on the accrual for revenue earned but not yet billed at the reporting date have included, among others, the following:

- analysis of the procedures adopted by the Group for the determination of the accrual for revenues earned but not yet billed and of the related calculation algorithms;
- identification and understanding of the key controls implemented by the Group to monitor the risk of an incorrect accrual and testing of the effectiveness thereof;
- testing, based on a sample of users, of the process for the estimation of quantities consumed and the application of the correct reference rates;
- a comparative analysis of the key parameters pertaining to consumption used for the determination of the above accrual;
- verification of the correct determination of the guaranteed revenue using the regulated reference rate;
- verification, on a sample basis, of the consistency between the values confirmed at the end of the year and those billed during 2019;
- review the adequacy of the disclosures provided in this regard.

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 and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the SMAT Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Parent Company Società Metropolitana Acque Torino S.p.A. or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. We have also:

- Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.
- 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Concluded on the appropriateness of management's 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.
- 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.
- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate 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 have 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 have described these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Società Metropolitana Acque Torino S.p.A. has appointed us on September 27, 2017 as auditors of the Company for the years from 2017 to 2025.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Società Metropolitana Acque Torino S.p.A. are responsible for the preparation of the Directors' report of the SMAT Group as at December 31, 2018, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the Directors' report with the consolidated financial statements of the SMAT Group as at 31 December 2018 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned Directors' report is consistent with the consolidated financial statements of the SMAT Group as at December 31, 2018 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Società Metropolitana Acque Torino S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no.254.

We have verified the approval by the Directors of the non-financial statement.

Pursuant to article 3, paragraph 10 of Legislative Decree of 30 December 2016, no. 254, this Report is subject of a separate attestation issued by another auditor.

DELOITTE & TOUCHE S.p.A.

Signed by
Luca Scagliola
Partner

Turin, Italy
June 13, 2019

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

**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014**

**To the Shareholders of
Società Metropolitana Acque Torino S.p.A.**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Società Metropolitana Acque Torino S.p.A. (the "Company"), which comprise the statement of financial position as at December 31, 2018 and the income statement, the statement of comprehensive income, statement of cash flows and statement of changes in net equity for the year then ended, and the notes to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition – Revenues earned and not yet billed

Description of the key audit matter As disclosed in paragraph "Valuation criteria - Costs and revenues" of the notes to the financial statements, revenues from sales of water are recognized and accounted for when the service is rendered and include an accrual for revenues earned but not yet billed at year-end. This accrual, which as at December 31, 2018 amounted to 64,404 thousand, is determined by estimating the revenue guaranteed by the regulated reference rate (resolution ARERA n. 617/2018/R/IDR of the 27/11/2018).

We have considered the procedure used for the determination of the above accrual to be a key matter for the audit of the Company's financial statements as of December 31, 2018 in view of: *i)* the discretionary component inherent in the estimated nature of the accrual; *ii)* the materiality of its total amount; *iii)* the effort needed to perform the related audit procedures, as well as the need to seek support from IT specialists to test the calculation algorithms adopted by the Company for the determination of the accrual.

Audit procedures performed	<p>The audit procedures performed by us on the accrual for revenue earned but not yet billed at the reporting date have included, among others, the following:</p> <ul style="list-style-type: none"> • analysis of the procedures adopted by the Company for the determination of the accrual for revenues earned but not yet billed and of the related calculation algorithms; • identification and understanding of the key controls implemented by the Company to monitor the risk of an incorrect accrual and testing of the effectiveness thereof; • testing, based on a sample of users, of the process for the estimation of quantities consumed and the application of the correct reference rates; • a comparative analysis of the key parameters pertaining to consumption used for the determination of the above accrual; • verification of the correct determination of the guaranteed revenue using the regulated reference rate; • verification, on a sample basis, of the consistency between the values confirmed at the end of the year and those billed during 2019; • review the adequacy of the disclosures provided in this regard.
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Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. We have also:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to 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 Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate 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 have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Società Metropolitana Acque Torino S.p.A. has appointed us on September 27, 2017 as auditors of the Company for the years from 2017 to 2025.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Società Metropolitana Acque Torino S.p.A. are responsible for the preparation of the Directors' report of the Company as at December 31, 2018, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the Directors' report with the financial statements of Società Metropolitana Acque Torino S.p.A. as at December 31, 2018 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned Directors report is consistent with the financial statements of the Company as at December 31, 2018 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Luca Scagliola
Partner

Turin, Italy
June 13, 2019

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

ORDINARY SHAREHOLDER MEETING 28 JUNE 2019

Presided over by the President of SMAT Paolo Romano, Secretary Marco Boccadoro, at the start of the meeting 116 representatives of Shareholders of a total of 292 present, holders of 4,734,558 ordinary shares out of 5,352,963, equal to 88.45% of share capital, after having acknowledged the Consolidated Balance Sheet dated 31.12.2018 of the Gruppo SMAT, the Shareholder Meeting deliberated the approval of the Fiscal Year Balance Sheet 2018, which takes into the account the Convention pursuant to art. 30 TUEL undersigned by the Shareholders and art. 2 of the same, providing for the following destination of profits attained:

- 5% to the Legal Reserve

and of the remaining 95%:

- 80% to the Reserve bound to the implementation of the Economic and Financial Plan;
- 20% to dividends to the Shareholders to promote environmental protection measures.

Therefore, by a wide majority of votes the balance sheet for the fiscal year concluded on 31.12.2018 of the company was approved, with net profit of Euro 51,796,714.36, in its entirety and in its single items, and the distribution of the net profit as follows:

- 5% to the Legal reserve amounting to € 2,589,835.72

and of the remaining 95%:

- 80% to the Reserve bound to the implementation of the Economic and Financial Plan amounting to € 39,365,502.91;
- 20% as dividend to the Shareholders for a total amount of Euro 9,841,375.73, corresponding to a unit dividend rounded off to Euro 2.02 for each of the 4,859,988 ordinary shares that have right to it, excluding the owned shares held by SMAT, and therefore a total dividend rounded up to Euro 9,817,195.96; therefore the net residual amount to report is Euro 24,179.77.



SOCIETÀ METROPOLITANA ACQUE TORINO S.p.A.

Corso XI Febbraio, 14

10152 Torino - Italy

Tel. +39 011 4645.111

Fax +39 011 4365.575

info@smatorino.it

www.smatorino.it



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