



2019

FINANCIAL STATEMENTS OF ACEA SPA
CONSOLIDATED FINANCIAL STATEMENTS



acea

2019

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OF ACEA SPA

ACEA GROUP CONSOLIDATED FINANCIAL STATEMENTS

acea

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LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

The year ended on 31 December 2019 shows that the strategy followed since the second half of 2017 has gradually produced results both in terms of consolidation and development. While 2018 represented a turning point for the Group thanks to the launching of all the initiatives detailed in the Business Plan and the consequent stimulus of the Business Segments, 2019 saw the Group solidify these foundations and at the same time relaunch planning aimed at achieving even more challenging goals.

The definition of a new Business Plan, which became indispensable at the end of 2018 having already reached all the goals envisaged in the 2018-2022 Plan for the first part of 2019, therefore demonstrates the company's acceleration as a result of the choices made initially, also highlighting the company's determination to achieve a more ambitious positioning.

Faithful to its strategic pillars and its value creation project, in this renewed context the Group has further narrowed its focus on growth, development and the diversification of its business portfolio, concentrating in particular on innovation in industrial processes and on results with a dynamic and sustainable approach. This confirms the full integration of those essential factors linked to the areas of innovation and sustainability, now transversal to all processes.

In particular, with regard to Sustainability issues, the updates to the Business Plan and the 2019-2022 Sustainability Plan involving an increase in investments related to specific targets for a total value of € 1.7 billion reflect the sustainable approach of all Group activities and its alignment with the objectives of the UN Agenda 2030 for Sustainable Development. From the integrated water service to the repowering of plants with lower impacts in terms of emissions, from waste management to energy efficiency projects, from the development of photovoltaic production to electric mobility and company welfare.

With regard to Innovation, of note is the adoption of processes typical of open innovation aimed at fostering the spread of the culture of innovation within the Group. Proof of this is the recent establishment of the company Acea Innovation. The partnerships established, even at an international level, aim instead to strengthen Acea's positioning in the innovation ecosystem and to identify new business opportunities.

But that's not all. Sustainability and Innovation are essential elements in a future that looks forward to a profound transformation in terms of technological progress and significant effects on the labour market and people.

Without forgetting how strategic these two factors are in also addressing the aspect of vulnerability, which all humanity has suddenly become aware of as the Covid-19 pandemic spreads across the globe.

The year 2019 completes a three-year period that recounts a path of development that has been under way since the current Board of Direc-

tors took office, which has constantly shared and supported the strategic choices made.

Thanks to the expertise and dedication of management and employees, the ability to enhance the value of industrial assets and make them more and more efficient has been achieved through the implementation of an ambitious plan, substantial investments, a focus on regulated infrastructure, significant consolidation operations and growth through external lines, which has also generated a constant increase in capitalisation on a financial level.

The year was distinguished by extraordinary M&A transactions that allowed expanding the business perimeter and consolidating the Group's positioning, ensuring a solid basis for further growth even in sectors like renewable sources, the circular economy and gas distribution, and also contributing to an increase in the financial results.

With the acquisition of photovoltaic plants, Acea has in fact returned to growth in the renewable energy market, going in the direction of decarbonisation and energy transition, and has entered the plastics treatment sector, confirming its role in the waste treatment cycle and in the wider circular economy through the acquisition of plants and the construction of new ones, like the composting plant inaugurated in Monterotondo Marittimo (GR), one of the largest in Central Italy. This is a result that also underscores the fruitful collaboration with Institutions and Bodies in the creation of value for local communities.

A good example is the Acea SmartComp™ project, developed in partnership with Enea and the University of Tuscia. By making the widespread treatment of organic waste possible, it allows the reduction of environmental impacts and the dissemination of a culture of what Acea has called Waste Transition.

Forecasts were exceeded in the second half of 2019 as well, and the Acea Group closed a year that saw further increases in results compared to the previous 12 months.

In fact, the financial statements record a Group net profit of € 284 million, still growing, this time by 5% and with a proposed distribution of a dividend of € 0.78 per share, corresponding to an increase of 10% compared to 2018. Consolidated net revenues also grew by 5% to € 3,186 million. EBITDA grew by 11.7%, from € 933 million to € 1,042 million at 31 December 2019. In terms of forecasts, the Group's desire to ensure continuity in the implementation of investments in infrastructure capable of having a positive impact on the Group's operating and financial performance remains firm, while maintaining the solidity of its consolidated financial structure for the future. Development will continue, recognising new technologies – including information systems – as the fundamental element for the achievement of objectives of operational efficiency, security and resilience of industrial assets.



This includes all the other activities already implemented and for the most part certified in the field of risk prevention and mitigation in order to guarantee the continuity of services that are essential to people's lives.

For the people and the communities served, Acea will maintain its commitment to seeking levels of excellence in the technical and commercial quality of the services provided, with a view to continuous improvement that can stimulate increasingly positive dynamics.

The Board of Directors offers its gratitude to all those who have worked to achieve these results, and encourages them to continue on this path and maintain their sense of community, as the Acea Group has demonstrated that it is up for the challenge.

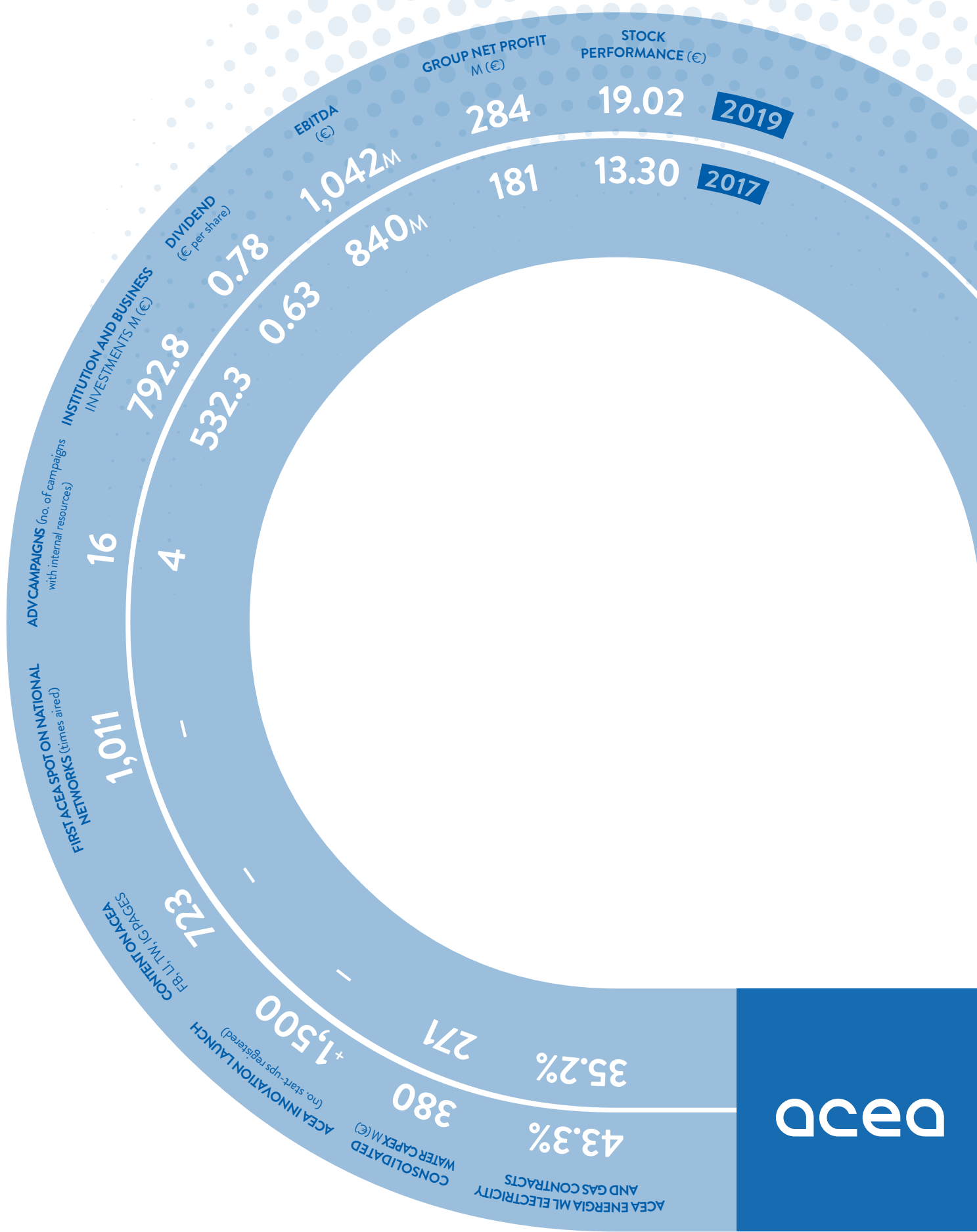
In the days when these financial statements were published, Italy and the rest of the world were still in the acute phase of the health emergency and it was not known how the pandemic would evolve or the true extent of its economic and social consequences. It is generally thought that a few weeks will not be enough to find answers.

As far as our responsibilities are concerned during this dramatic time, while we know that we are part of a solid Group, as is evident in all the measures and activities already under way to guarantee operations and the achievement of results, we are also aware of how much stronger our commitment and our ability to be resilient and reactive will need to be in the future.

The Chief Executive Officer
Stefano Antonio Donnarumma

The Chairman
Michaela Castelli

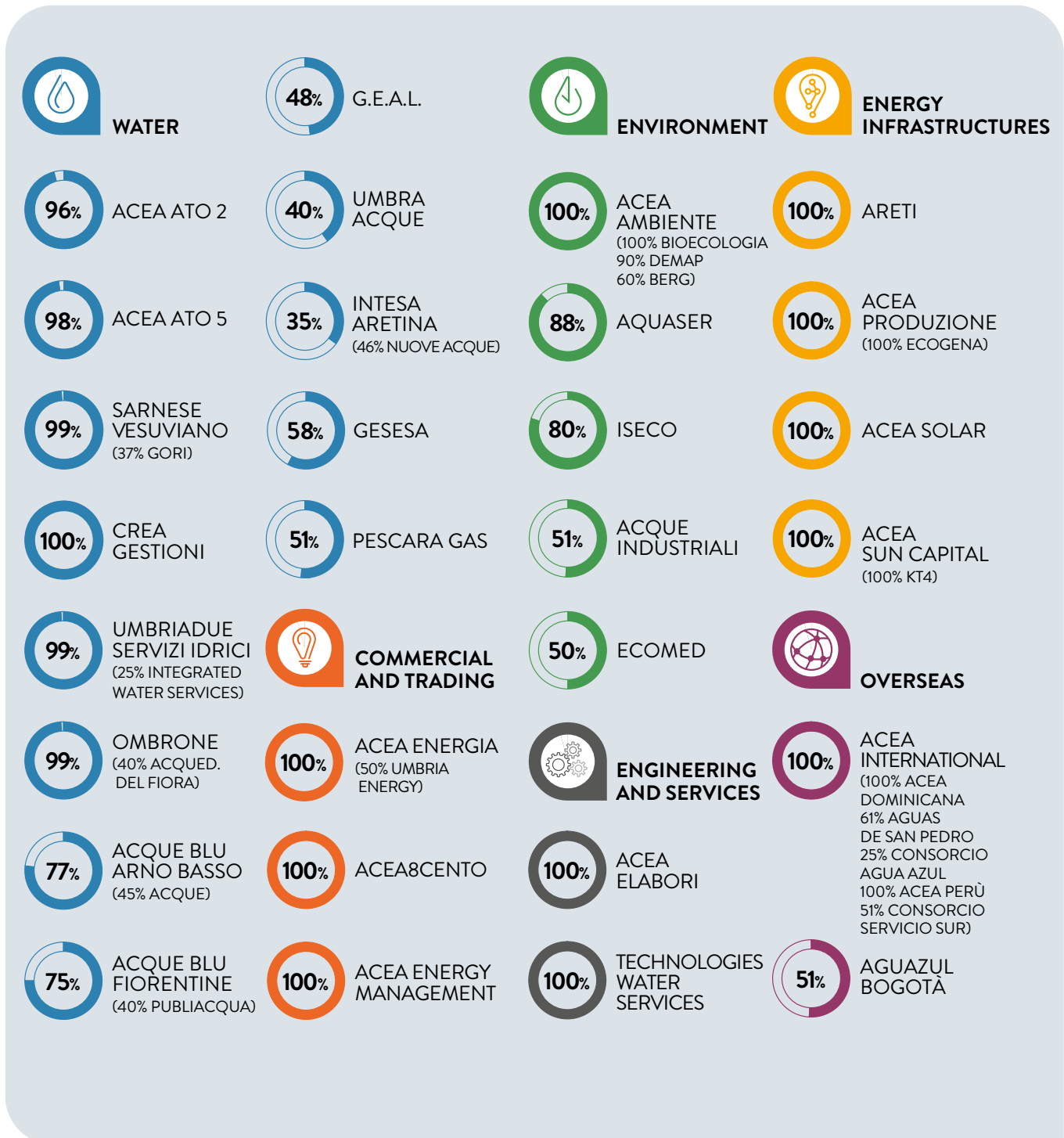




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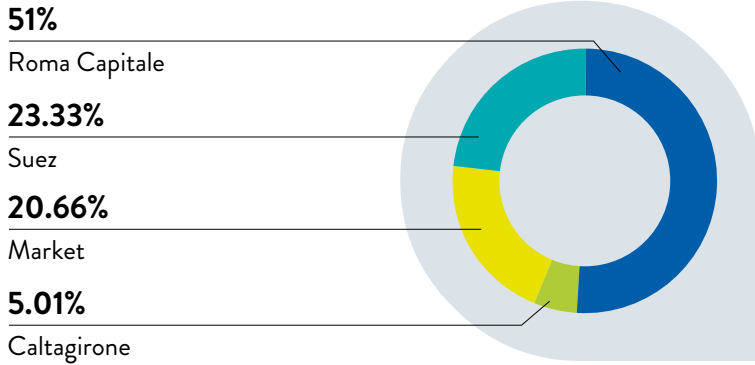
GROUP STRUCTURE

THE GROUP STRUCTURE, IN THE VARIOUS BUSINESS SEGMENTS, COMPRISES THE FOLLOWING MAIN COMPANIES.



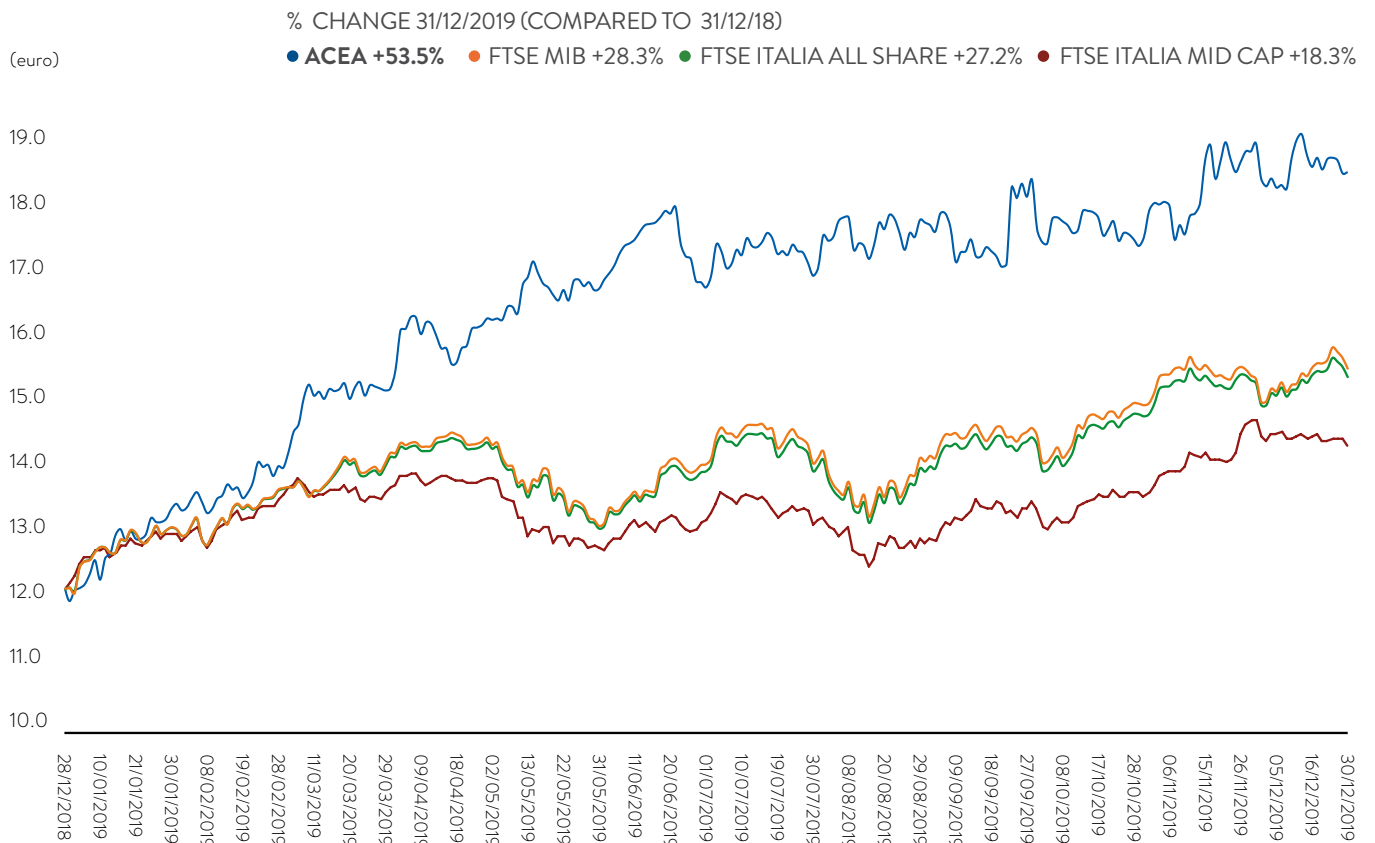
INVESTOR RELATIONS

THE SHARE CAPITAL OF ACEA SPA AT 31 DECEMBER 2019 IS BROKEN DOWN AS FOLLOWS:



The above chart only shows equity investments of more than 3%, as confirmed by CONSOB data

ACEA STOCK PERFORMANCE IN 2019



(Chart normalised to Acea values - Source: Bloomberg)

CORPORATE HIGHLIGHTS



WATER

LEADING OPERATOR

in Italy
in water services

With about **9** million

inhabitants served
in Lazio, Tuscany, Umbria
and Campania



ENERGY INFRASTRUCTURE

ONE OF THE MAIN

operators in Italy in the
distribution of electricity

With about **10**
TWh

of electricity
distributed



COMMERCIAL AND TRADING

ONE OF THE MAIN

national operators in the
market for electricity sold

With about **6.5**
TWh

of electricity
sold



ENVIRONMENT

PRIMARY OPERATOR

in Italy
in Waste Management

With over **1.2**
million tonnes

of waste managed



OVERSEAS

PRESENT WITH

4 companies
operating
in water services

4 million
inhabitants served
in Latin America



ENGINEERING AND SERVICES

TWO DEDICATED COMPANIES

462,586
drinking water
analyses

251,132
wastewater
analyses

FINANCIAL HIGHLIGHTS

MONETARY FIGURES IN MILLION OF EUROS

CONSOLIDATED REVENUES



EBITDA



EBIT



INCOME BEFORE TAXES



NET INCOME FOR THE GROUP



GROUP INVESTMENTS



THE ORGANISATIONAL MODEL

Acea has adopted an operational model based on an organisational layout in line with the Strategic Business Plan consolidating its role to govern, guide and control the Holding not only with the current business portfolio focused on areas of greater value, but also on the strategic development of the Group in new business segments and territories. Acea's macro structure is organised in corporate functions and six operating segments: Water, Energy Infrastructure, Commercial and Trading, Overseas and Engineering and Services. The activities of each business segment are described below.

EBITDA 2019
1,042 M€



WATER

The Acea Group is the top Italian operator in the water sector serving about 9 million people. The Group manages the integrated water service in Rome and Frosinone and in their respective provinces, as well as in other parts of Lazio, in Tuscany, Umbria and Campania.

LEADING NATIONAL OPERATOR

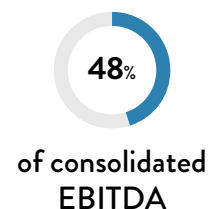
- Approximately 9 million inhabitants served and 1,380 million cubic metres of water supplied annually
- About 58,000 km of drinking water network and 23,000 km of sewerage network managed

- Management of the entire water cycle integrated from withdrawal to return to the environment
- Design, construction and management of plants and distribution networks with innovative technologies
- Focus on water protection and service quality

EBITDA +16.6%



INVESTMENTS +15.3%



ENERGY INFRASTRUCTURE

The Acea Group is a major operator in Italy with about 10 TWh of electricity distributed in Rome. The Group also manages the public and artistic lighting of the capital for a total of 224,000 light bulbs. The Acea Group is committed to energy efficiency projects and the development of new technologies such as smart grids and electric mobility through particularly innovative pilot projects.

ONE OF THE MAIN OPERATORS IN ITALY

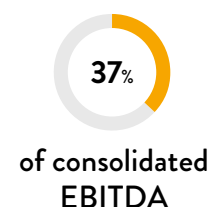
- Electricity distributed: 9,849 GWh in the city of Rome
- Energy generation: 530 GWh
- Rome public and artistic lighting management: over 224,000 fixtures

- Energy efficiency projects
- Hydroelectric power stations: 121 MW
- Thermoelectric plants: 97 MW
- Photovoltaic plants: ~ 37 MWp

EBITDA +8.7%



INVESTMENTS +20.7%





COMMERCIAL AND TRADING

The Acea Group is one of Italy's main players in the sale of Electricity, and offers flexible solutions for the supply of electricity and natural gas, with the aim of consolidating its position as a dual-fuel operator. Acea operates in the market segments of medium-sized businesses and families, striving to improve the quality of its services in particular as far as web and social channels are concerned. It supervises the Group's energy management policies.

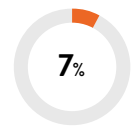
ONE OF THE MAIN OPERATORS IN ITALY

- Electricity sold: 6.5 TWh
- Free market customers: 0.4 M
- Protected market customers: 0.8 M
- Gas customers: 0.2 M

EBITDA -9.2%



INVESTMENTS



7%
of consolidated
EBITDA



OVERSEAS

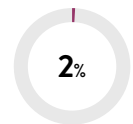
With this Segment, the Acea Group manages water activities in Latin America and its objective is to make the most of development opportunities in other businesses related to those already held in Italy. It is present in Honduras, Dominican Republic and Peru, serving approximately 4 million people. The activities are carried out in partnership with local and international partners, including through staff training and the transfer of know-how to local entrepreneurs.

- Water management in Latin America

EBITDA +14.3%



INVESTMENTS +6.6%



2%
of consolidated
EBITDA



ENVIRONMENT

The Acea Group is one of the leading national players in Italy with more than 1.2 million tonnes of waste managed each year. It manages the main waste-to-energy plant and the largest composting plant in Lazio. In particular, the Group develops investments in the waste to energy business, considered high potential, in accordance with the strategic goal of producing energy from waste and protecting the environment.

FIRST OPERATOR IN ITALY

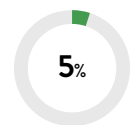
Umbria, Lazio, Tuscany, Piedmont and Valle d'Aosta

- Waste managed: 1.2 million tonnes
- Electricity transferred (WTE): 327 GWh
- Energy produced: 377 GWh

EBITDA -20.8%



INVESTMENTS +159.6%



5%
of consolidated
EBITDA



ENGINEERING AND SERVICES

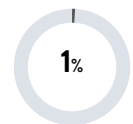
Acea Group has developed cutting-edge know-how in the design, construction and management of networks and plants in the integrated water service, waste treatment and recovery, production and distribution of Electricity.

- Analytical determinations on water intended for human consumption: 462,586 drinking water, mainly Acea Ato 2 and Acea Ato 5
- Laboratory analysis on wastewater: 251,132
- Number of on-site inspections: 12,481

EBITDA -28.1%



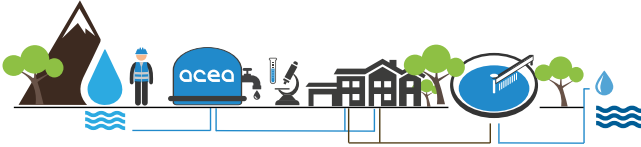
INVESTMENTS



1%
of consolidated
EBITDA

THE ACEA BUSINESS MODEL

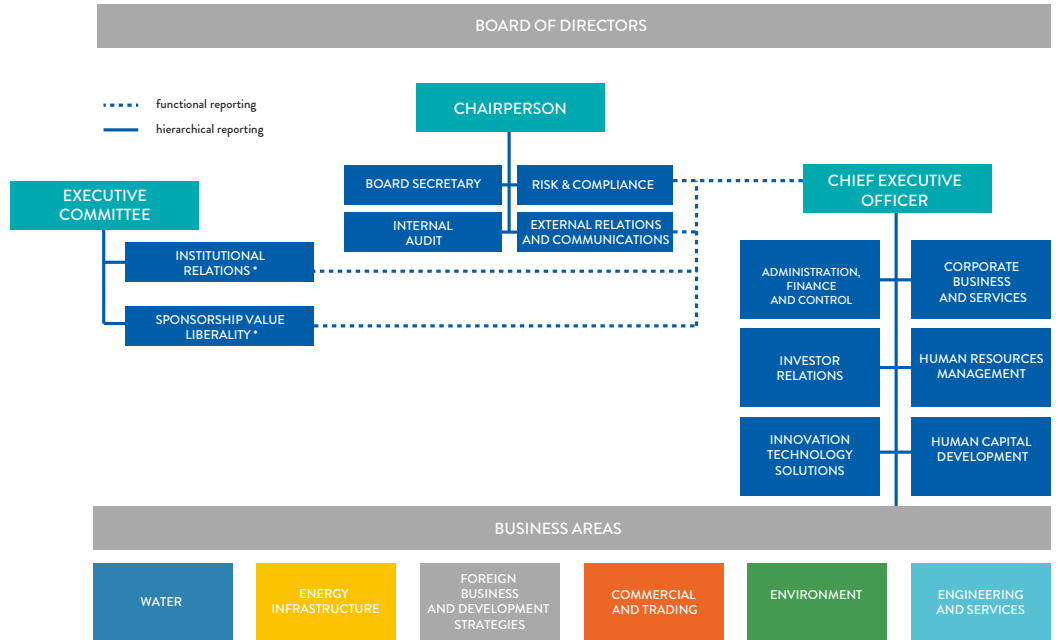
A WATER SUPPLY CHAIN: INTEGRATED WATER SERVICE



SCENARIO:
national policies, market, economy,
innovation, sustainability, etc.

GOVERNANCE
STRATEGY
POLICY

NATURAL ENVIRONMENT



* The structure is hierarchically answerable to the Chairman of the Board of Directors (member of the Executive Committee by right)

D ENVIRONMENTAL SUPPLY CHAIN: CIRCULAR ECONOMY



COMPLIANCE
OF RISK ASSESSMENT

regulatory evolution, sector regulation,
mega trends (social, environmental situation), etc.

**B ENERGY SUPPLY CHAIN:
PRODUCTION AND DISTRIBUTION INFRASTRUCTURE**



STAKEHOLDERS

**C ENERGY SUPPLY CHAIN:
TRADING AND SALES**



A WATER SUPPLY CHAIN: INTEGRATED WATER SERVICE

The water supply chain: starting from a careful analysis of springs and groundwater and the potential impacts of operational processes on them – for example, by defining and monitoring water districts and preparing water balances – Acea controls and guarantees the quality of water during collection and distribution in compliance with the regulatory standards envisaged for end uses. The same care is devoted to wastewater and advanced treatment phases to recover useful material and return the resource to the environment in the best possible conditions for its natural cycle to resume.

B ENERGY SUPPLY CHAIN: PRODUCTION AND DISTRIBUTION INFRASTRUCTURE

Production and distribution of electricity: Acea produces energy at hydroelectric plants, waste-to-energy plants, thermoelectric plants (high-efficiency cogeneration), anaerobic digestion plants (biogas) and photovoltaic plants, for a total generation from renewable sources of about 70%. Users receive electricity thanks to the distribution grid managed and developed by Acea. The digital and innovative development in the services, stimulated and required by a constantly evolving market, commits the Distributor to tend towards smart city solutions. This is accompanied by a resilient management of the networks by which it is possible to support a future shift and increase in the uses of the electrical vector.

C ENERGY SUPPLY CHAIN: TRADING AND SALES

Sale of energy and gas: the purchase of commodities (energy and gas) takes place by means of bilateral contracts or exchanges on market platforms (Electronic stock exchange) where Acea Energia, provision in order to resupply clients according to its respective commercial policies. The Company develops relations with the clients, based on their typology, by means of increasingly more innovative and digital contact channels, however retaining traditional tools such as the telephone and public counters. The promotion of its products takes place through pull channels (shop, website, branches) as well as through sales agencies that are selected, trained and their commercial practices monitored.

D ENVIRONMENTAL SUPPLY CHAIN: CIRCULAR ECONOMY

Waste valorisation and circular economy: the environmental supply chain has as its objective the valorisation of waste through the reduction of volumes, their treatment, conversion into biogas, transformation into compost for agriculture and floriculture and recycling into material that is reusable in production processes. In particular, with a view to circular economy, Acea exploits the integration into water activities to recover sludge from water purification and send it for treatment to become compost, also committing itself to the growth of its market position and operational capacity through plant acquisition and development projects.

1909 2019

ROMA 

ace

110 anni di luce

ACEA e ROMA
passione e innovazione




GANGEMI EDITORE
INTERNATIONAL

eo

REPORT
ON OPERATIONS

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CORPORATE BODIES

Board of Directors

Michaela Castelli	Chairman
Stefano Antonio Donnarumma	CEO
Alessandro Caltagirone	Director
Massimiliano Capece Minutolo Del Sasso	Director
Gabriella Chiellino	Director
Giovanni Giani	Director
Liliana Godino	Director
Maria Verbena Sterpetti ¹	Director
Diane Galbe ²	Director

Board of Statutory Auditors

Maurizio Lauri	Chairman
Pina Murè	Standing Auditor
Maria Francesca Talamonti	Sindaco Effettivo
Maria Federica Izzo	Alternate Auditor
Mario Venezia	Alternate Auditor

Dirigente Preposto

Giuseppe Gola

Auditing Firm

PricewaterhouseCoopers SpA

¹ Appointed by the Shareholders' Meeting on 17 April 2019.

² Co-opted on the BoD on 11 December 2019.

SUMMARY OF RESULTS

Income Statement Data

€ million	31/12/2019	31/12/2018	Change	% Change
Consolidated revenues	3,186.1	3,028.5	157.6	5.2%
Consolidated operating costs	2,185.3	2,138.6	46.7	2.2%
Income/(costs) from equity investments of a non-financial nature	41.4	43.3	(2.0)	(4.5)%
Net income/(costs) from commodity risk management	0.1	0.0	0.1	n.s.
EBITDA	1,042.3	933.2	109.1	11.7%
EBIT	518.1	478.6	39.5	8.3%
Net profit/(loss)	307.2	284.7	22.5	7.9%
Profit/(loss) attributable to minority interests	23.5	13.7	9.8	71.5%
Net Group result	283.7	271.0	12.7	4.7%

EBITDA per Operating Segment

€ million	31/12/2019	31/12/2018	Change	% Change
ENVIRONMENT	52.0	65.6	(13.6)	(20.8)%
COMMERCIAL AND TRADING	69.1	76.1	(7.0)	(9.2)%
OVERSEAS	16.9	14.8	2.1	14.3%
WATER	505.0	433.0	72.0	16.6%
Integrated water service	501.9	432.0	69.9	16.2%
Others	3.0	1.0	2.1	n.s.
ENERGY INFRASTRUCTURE	392.0	360.7	31.2	8.7%
Distribution	345.4	317.1	28.3	8.9%
Generation	44.6	49.0	(4.4)	(9.0)%
Public Lighting	1.9	(5.4)	7.3	(136.1)%
ENGINEERING AND SERVICES	13.0	18.0	(5.1)	(28.1)%
Acea (Corporate)	(5.6)	(34.9)	29.4	(84.1)%
Total EBITDA	1,042.3	933.2	109.1	11.7%

Consolidated balance sheet data

€ million	31/12/2019	31/12/2018	Change	% Change
Net Invested Capital	5,169.5	4,471.5	698.0	15.6%
Net Debt	(3,062.8)	(2,568.0)	(494.8)	19.3%
Consolidated Shareholders' Equity	(2,106.7)	(1,903.5)	(203.2)	10.7%

Net debt per Operating Segment

€ million	31/12/2019	31/12/2018	Change	% Change
ENVIRONMENT	256.5	203.6	52.9	26.0%
COMMERCIAL AND TRADING	(53.2)	(23.7)	(29.5)	124.2%
OVERSEAS	(4.5)	4.1	(8.7)	n.s.
WATER	1,286.5	1,039.0	247.4	23.8%
Integrated water service	1,287.2	1,048.4	238.8	22.8%
Others	(0.7)	(9.3)	8.6	(92.3)%
ENERGY INFRASTRUCTURE	1,320.5	1,121.9	198.6	17.7%
Distribution	1,141.7	1,010.3	131.4	13.0%
Generation	178.8	112.4	66.4	59.1%
Public Lighting	0.0	(0.8)	0.8	(100.0)%
ENGINEERING AND SERVICES	6.7	(13.3)	20.0	(150.6)%
Acea (Corporate)	250.4	236.4	14.0	5.9%
Total	3,062.8	2,568.0	494.8	19.3%

Debt at 31 December 2019: 1) is shown gross of € 18.7 million of receivables relating to IFRIC 12 of Acea SpA; 2) contains € 77.1 million of payables for dividends approved and not yet distributed to Roma Capitale; 3) contains € 16.3 million of receivables relating

to the request for reimbursement presented to AGCM for repayment of the sum paid at the end of the year; 4) is shown gross of € 17.4 million of payables relating to some acquisitions of equity investments in the photovoltaic sector during the year.

Investments per operating segment

€ million	31/12/2019	31/12/2018	Change	% Change
ENVIRONMENT	51.9	20.0	31.9	159.6%
COMMERCIAL AND TRADING	42.5	24.6	17.9	72.6%
OVERSEAS	7.0	6.6	0.4	6.6%
WATER	380.1	329.7	50.4	15.3%
Integrated water service	378.4	329.5	48.9	14.8%
Others	1.7	0.2	1.5	n.s.
ENERGY INFRASTRUCTURE	287.8	238.3	49.4	20.7%
Distribution	265.7	218.4	47.2	21.6%
Generation	18.8	15.5	3.3	21.5%
Public Lighting	3.3	4.4	(1.1)	(25.9)%
ENGINEERING AND SERVICES	1.8	1.6	0.2	13.6%
Acea (Corporate)	21.7	10.0	11.7	116.3%
Total	792.8	630.8	161.9	25.7%

SUMMARY OF OPERATIONS AND INCOME, EQUITY AND FINANCIAL PERFORMANCE OF THE GROUP

On 5 October 2015, ESMA (European Securities and Markets Authority) published its guidelines (ESMA/2015/1415) on criteria for the presentation of alternative performance indicators which replace, as of 3 July 2016, CESR/05-178b recommendations. This orientation was acknowledged in our system in CONSOB Communication no. 0092543 dated 3 December 2015.

The content and meaning of the non-GAAP measures of performance and other alternative performance indicators used in these financial statements are illustrated below:

1. for the Acea Group, the *gross operating profit* (or EBITDA) is an operating performance indicator and from 1 January 2014 also includes the condensed result of equity investments in jointly controlled entities for which the consolidation method changed when international accounting standards for financial reporting IFRS 10 and IFRS 11 came into force. *EBITDA* is determined by adding the Operative Result to “Amortisation, depreciation, provisions and impairment”, insofar as these are the main non-cash items;
2. the *net financial position* is an indicator of the Acea Group’s financial structure, the sum of non-current borrowings and financial liabilities (excluding payables arising as a result of certain acquisitions during the year) net of non-current financial assets (financial receivables excluding a part of receivables related to Acea SpA’s IFRIC 12 and securities other than equity investments), current borrowings and other current financial liabilities net of current financial assets (including receivables for the repayment requested from the AGCM), cash and cash equivalents;
3. *net invested capital* is the sum of “current assets”, “non-current assets” and assets and liabilities held for sale, less “current liabilities” and “non-current liabilities”, excluding items taken into account when calculating the net financial position;
4. *net working capital* is the sum of current receivables, inventories, the net balance of other current assets and liabilities and current payables, excluding the items considered in determining the net financial position.

SUMMARY OF RESULTS: PERFORMANCE OF ECONOMIC RESULTS

Income Statement Data

€ million	2019	2018	Change	% Change
Revenue from sales and services	3,022.2	2,836.9	185.3	6.5%
Other revenue and proceeds	163.9	191.6	(27.7)	(14.4)%
Costs of materials and overheads	1,936.4	1,918.9	17.5	0.9%
Personnel costs	248.9	219.6	29.2	13.3%
Net income/(costs) from commodity risk management	0.1	0.0	0.1	n.s.
Income/(costs) from equity investments of a non-financial nature	41.4	43.3	(2.0)	(4.5)%
EBITDA	1,042.3	933.2	109.1	11.7%
Amortisation, depreciation, provisions and impairment charges	524.2	454.7	69.5	15.3%
Operating profit/(loss)	518.1	478.6	39.5	8.3%
Financial items	(90.3)	(82.9)	(7.4)	9.0%
Equity investments	2.6	13.3	(10.7)	(80.6)%
Profit/(loss) before tax	430.4	409.0	21.4	5.2%
Income taxes	123.2	124.3	(1.1)	(0.9)%
Net profit/(loss)	307.2	284.7	22.5	7.9%
Profit/(loss) attributable to minority interests	23.5	13.7	9.8	71.5%
Net profit/(loss) attributable to the Group	283.7	271.0	12.7	4.7%

At 31 December 2019, changes in the scope of consolidation took place compared to 31 December 2018. Specifically:

- on 18 March 2019 Acea acquired 51% of the company Pescara Distribuzione Gas;
- on 30 April 2019, the companies Acea Solar and Acea Sun Capital were established; the latter includes the acquisitions of photovoltaic plants for a total of 28 MWp made during the second half of 2019 through the acquisition of controlling interests in 13 companies;
- on 4 July 2019 Acea Ambiente acquired 90% of Demap, a company operating in Piedmont in the field of plastics recycling, and on 18 October acquired 60% of Berg, a waste management company in the Municipality of Frosinone;
- on 25 June 2019 Acea SpA set up the company Acea Innovation, operating in the field of Technological Innovation;
- with effect from 7 October 2019, AdF is fully consolidated following the amendment of the shareholders' agreements that allowed Acea to exercise control over the company in accordance with IFRS 10.

Finally, with regard to 2018, please note that:

- Gori was consolidated on a line-by-line basis on 8 November

2018 following the amendment of the agreements with the Campania Region that gave Acea control over the company in accordance with IFRS 10. Therefore, Gori's income statement at 31 December 2018 contains the equity valuation until 8 November and the remaining part of the year is consolidated on a line-by-line basis;

- On 29 November 2018, Acea Ambiente acquired 100% of Bioecologia, a company operating in Tuscany in the field of liquid and solid waste treatment. Therefore the company's income statement as at 31 December 2018 only contains the consolidation for the month of December 2018;
- Acea Peru, incorporated on 28 June 2018, is 90% owned by Acea International and the remaining 10% by Acea Dominicana, and on 5 July 2018 Consorcio Servicios Sur was acquired, 50% owned by Acea International and 1% by Acea Ato 2.

For more details, see the paragraph "Criteria, procedures and area of consolidation".

The table below shows the impact of the change in the scope of consolidation at 31 December 2019.

€ million	Gori	Adf	Pescara Distribuzione Gas	Bioecologia	Demap	Berg	Newco Fotovoltaico	Overseas
Revenues	167.1	27.5	7.6	3.3	5.0	1.5	4.8	5.0
EBITDA	53.9	13.5	1.7	(0.2)	1.8	0.5	3.6	0.2
EBIT	20.7	3.7	1.0	(0.5)	1.5	0.4	1.2	0.1
EBT	15.1	2.1	0.9	(0.6)	1.5	0.4	0.7	0.0
NP	9.0	1.0	0.6	(0.6)	1.1	0.2	0.3	0.0

Revenue from sales and services amounted to € 3.0 billion, an increase of € 185.3 million

As at 31 December 2019, revenues from sales and services come to € 3,022.2 million, up € 185.3 million (+ 6.5%) on those of 2018, mostly due to the increase in revenues from the increase in

revenues from the integrated water service (+ € 220.5 million). This change is mainly due to: 1) Gori for € 167.1 million; 2) AdF for € 25.7 million (in 2018 the Company was consolidated using the equity method); 3) Acea Ato 2 (+ € 21.5 million) mainly due to the tariff increase determined by ARERA Resolution 918/2017 fol-

lowing the two-year update of the 2018-2019 tariff and the increase in the premium for contract quality compared with the previous year (+ € 2.2 million).

Also contributing to the change in revenues from sales and services: 1) the increase in revenues from waste transfer and landfill management (+ € 15.3 million) mainly due to the price effect and the consolidation of Bioecologia for € 3.6 million; 2) the increase in revenues from gas sales for € 19.8 million mainly due to Acea Energia (+ 11.5 million sm³ compared to 2018) and the consolidation of Pescara Gas for € 5.0 million; 3) the higher revenues of foreign companies due to the acquisition of Consorcio CSUR (+ € 5.6 million) and the better performance of Aguas de San Pedro which recorded higher revenues for € 4.4 million.

These increases were partially offset by the reduction in revenues from the sale of electricity of € 73.6 million, as a result of the RCV review of the margin as well as the value recognised for the mechanism for compensating for arrears, provided for in Resolution 706/2018 ARERA. This item includes the higher revenues from the sale of photovoltaic energy deriving from the new companies acquired, for a total of € 4.7 million. These revenues represent the incentive contribution recognised by the GSE for the production of energy from photovoltaic plants. The installed capacity of the newly acquired plants amounts to a total of 28 MWp.

Other revenues amounting to € 163.9 million

Other revenues show a decrease of € 27.7 million (- 14.4%) compared to the previous year.

The changes are due to a number of items with an opposing sign:

1. from the reduction of € 18.1 million in the contributions accrued on white certificates (TEE) in portfolio. Revenues from TEEs are offset by the costs incurred to purchase them;
2. from the reduction of € 34.0 million in out-of-period income from previous years' items;
3. from the recognition of the amount of € 16.2 million for the total cancellation of the administrative fine imposed by the AGCM and served on 8 January 2019, following the appeal

4. filed by Acea with the Lazio Regional Administrative Court; from the revenues from the "Open Fiber" agreement for the construction of infrastructure on the network and the laying of optical fibre (+ € 6.3 million).

External costs for €1.9 billion, up € 17.5 million on 31 December 2018

This item shows an overall increase of € 17.5 million (+ 0.9%) compared to 31 December 2018. The change is due for € 100.0 million to the change in the scope of consolidation, of which € 76.6 million of Gori and the remainder mainly from the following effects:

- lower purchase costs of the white certificates by areti (- € 19.2 million) for the fulfilment of the regulatory obligation concerning energy efficiency;
- lower costs for use of leased assets, of which - € 11.4 million due to the application of IFRS 16 (see the section on "Effects deriving from the introduction of new accounting standards");
- lower out-of-period expenses for € 34.7 million of items related to previous years, in particular Acea Energia (- € 26.5 million).

It should be noted that other operating expenses at 31 December 2018 included € 16.2 million relating to the penalty imposed on Acea by the AGCM (for further information, please refer to the section on the Industrial, Commercial and Trading Segment in this report).

Personnel costs, net of the change in the scope of consolidation, decreased by - € 0.5 million

Labour costs increased by € 29.2 million compared to the previous year. The change in the scope of consolidation (+ € 29.7 million in total) is mainly related to the consolidation of Gori, which contributed an increase of € 23.0 million; the increase in capitalised costs was also mainly attributable to the consolidation of Gori for € 15.5 million. This was followed by the higher capitalisations of Acea Ato 2 for € 3.8 million and areti for € 7.9 million.

The average number of employees was 7,070 and increased by 599 compared to the previous year, mainly due to the effect of the change in the scope of consolidation.

€ million	2019	2018	Change	% Change
Staff costs including capitalised costs	398.6	342.6	56.0	16.4%
Costs capitalised	(149.7)	(122.9)	(26.8)	21.8%
Personnel costs	248.9	219.6	29.2	13.3%

Non-financial investment income decreased by € 2.0 million

The income from non-financial equity investments represent the consolidated result according to the equity method included among the components forming the consolidated Gross Operating Profit of the strategic companies. The table below shows the financial results

of the companies valued according to the equity method. It should be noted that these figures also include Gori's 2018 results up to 7 November 2018 (date of commencement of full consolidation) for € 2.6 million and the 2019 results of AdF consolidated according to the equity method up to 7 October 2019.

€ million	2019	2018	Change	% Change
EBITDA	144.1	161.4	(17.3)	(10.7%)
Amortisation, depreciation, impairment charges and provisions	(79.6)	(94.5)	15.0	(15.8%)
Financial items	(8.0)	(5.9)	(2.1)	34.9%
Total profit/(loss) on equity investments	(0.0)	(0.0)	0.0	(87.8%)
Taxes	(15.1)	(17.5)	2.4	(13.9%)
Income from equity investments of a non-financial nature	41.4	43.3	(2.0)	(4.5%)

EBITDA at € 1,042.3 million up by 11.7%

EBITDA rose from € 933.2 million in 2018 to € 1,042.3 million at 31 December 2019, recording an increase of € 109.1 million or 11.7%. The increase is mainly due to the water sector (+ € 72.0 million), of which € 69.1 million is due to the change in the scope of

consolidation and the remaining part to tariff trends, followed, as regards the significant increase in margins, by the distribution and generation sectors (overall + € 31.2 million) resulting from the positive effect of the energy balance sheet for € 18.2 million and the equalising effects and improvement in the margin of the Public

Lighting sector (+ € 7.3 million); the change in the scope of consolidation relating to the acquisition of the photovoltaic companies during the second half of 2019 weighs in at € 3.7 million. The Parent Company also improved its margins (+ € 29.4 million), as a result of the cancellation of the AGCM fine recorded under costs in the previous year (overall the positive effect of the change, € 32.3 million, derives from the recording of the cost in 2018 and the out-of-period income recorded in 2019). The margin of the Commercial and Trading Segment decreased by € 7.0 million due to the lower energy margin, mainly because of the reduction in tariffs and the revision of the mechanism for offsetting arrears. The Environ-

ment Segment recorded an overall decrease of € 13.6 million, mainly due to lower CIP 6 revenues of € 16.7 million.

It should be noted that the first-time application of IFRS 16 affected the improvement in EBITDA for a total of € 11.4 million (for further details see the section “Effects of the introduction of new accounting standards”).

EBIT of € 518.1 million (+8.3%)

EBIT increased by € 39.5 million compared to the year ended 31 December 2018.

Details of the items affecting EBIT are presented below:

€ million	2019	2018	Change	% Change
Amortisation / depreciation of intangible and tangible assets and write-downs	409.6	366.8	42.7	11.6%
Net write-downs (write-backs) of receivables	66.8	75.1	(8.3)	(11.0)%
Provision for risks and charges	47.8	12.8	35.1	n.s.
Amortisation, depreciation, impairment charges and provisions	524.2	454.7	69.5	15.3%

The increase in EBIT was mitigated by the increase in amortisation and depreciation (+ € 42.7 million compared with 2018) mainly due to the change in the scope of consolidation of € 38.9 million (of which € 20.7 million relating to Gori and € 3.7 million to AdF). The increase in amortisation and depreciation was also affected by the first application of the new international standard IFRS 16, which with effect from 1 January 2019, led to the recognition of rights of use of assets belonging to others (*Right of use*) as fixed assets under lease and amortised over the expected duration of the related contracts. The recognition of the portion of such amortisation and depreciation for 2019 amounts to € 10.7 million (for further details on this, see the section “Effects deriving from the introduction of new accounting standards”).

Write-downs of receivables of € 9.4 million net of changes in the scope of consolidation decreased by € 17.7 million mainly due to the positive recognition of the effects of the issue on 27 December 2019 of Resolution 568/2019/R/EEL, which provides for the recovery of the portion relating to network tariffs similar to the model for the recognition of uncollected general system charges (- € 12.8 million refer to the provisions made by areas regarding the Gala matter) and lower provisions for the write-down of receivables of the Commercial and Trading Segment (- € 6.7 million).

Provisions net of the release relating to Gori recorded in the previous year for € 44.2 million decreased by € 9.1 million mainly due to: 1) lower tax and regulatory provisions for a total of € 8.7 million, 2) the release of € 4.4 million for the excess amount set aside in Acea Energia in previous years, mainly due to the multi-year adjustment session of the gas service for the years 2014-2017 (€ 3.8 million). These effects were partially offset by the higher provisions for other charges, in particular relating to Acea Ato 5 for € 4.5 million, set aside following the decisions that arose from the reconciliation between Optimal Territorial Area Authority no. 5 Southern Lazio Frosinone and Acea Ato 5. These

costs represent portions of investments to be carried out without any tariff recognition, therefore they are fully borne by the Operator. For further information, see the details in the paragraph “Conciliation Board with AATO 5” included in the section “Significant events for the 2019 financial year”.

Financial items increased by € 7.4 million

The result of financial operations shows net charges of € 90.3 million and an increase of € 7.4 million compared to 2018. It should be noted that the impact of discounting charges deriving from the application of IFRS 16 amounted to € 2.0 million (for further details see the section “Effects deriving from the introduction of new accounting standards”).

At 31 December 2019, the average all-in cost of the Acea Group’s debt stood at 2.15%, compared with 2.21% in the previous year.

Management of equity investments decreased by € 10.7 million

Management of equity investments decreased by € 10.7 million as a result of the recording in 2018 of income relating to the closure of the TWS Group’s Business Combination, for € 8,902 thousand.

Tax rate of 28.6%, a reduction of 1.8 percentage points

The estimate of the fiscal charges amounted to € 123.2 million, compared to € 124.3 million for last year. The overall decrease of - € 1.1 million recorded in 2019 is mainly due to the effects of the recalculation of deferred taxes. The tax rate for 2019 was 28.6% (30.4% at 31 December 2018).

The Group’s net result is up 4.7%

The net result attributable to the Group is € 283.7 million, and shows an increase of € 12.7 million with respect to the previous year.

SUMMARY OF RESULTS: TRENDS IN FINANCIAL POSITION AND CASH FLOWS

Consolidated balance sheet data

€ million	31/12/2019	31/12/2018	Change	% Change
Non-current assets and liabilities	5,825.8	5,114.2	711.5	13.9%
Net working capital	(656.2)	(642.7)	(13.5)	2.1%
Invested capital	5,169.5	4,471.5	698.0	15.6%
Net debt	(3,062.8)	(2,568.0)	(494.8)	19.3%
Total shareholders' equity	(2,106.7)	(1,903.5)	(203.2)	10.7%
Total sources of financing	5,169.5	4,471.5	698.0	15.6%

Compared to 31 December 2018, non-current assets and liabilities increased by € 711.5 million (+ 13.9%) mainly due to the growth in fixed assets (+ € 774.3 million), the provision for risks (+ € 14.8 million) and the increase in other non-current liabilities (+ € 42.9 million).

€ million	31/12/2019	31/12/2018	Change	% Change
Tangible/intangible fixed assets	5,565.1	4,790.7	774.3	16.2%
Equity investments	270.8	281.7	(10.9)	(3.9)%
Other non-current assets	637.0	630.6	6.5	1.0%
Employee severance indemnity and other defined benefit plans	(104.6)	(103.9)	(0.7)	0.7%
Provisions for risks and charges	(151.4)	(136.7)	(14.8)	10.8%
Other non-current liabilities	(391.1)	(348.2)	(42.9)	12.3%
Non-current assets and liabilities	5,825.8	5,114.2	711.5	13.9%

The change in intangible fixed assets is due to the investments, which reached € 792.8 million (+ € 161.9 million), and amortisations and value reductions, totalling € 409.6 million (+ € 42.7 million). The change in the consolidation area (gross of changes in the period) affected the increase of € 363.8 million. Finally, it should be noted that the item “tangible/intangible fixed assets” includes the increase resulting from the application of the new international standard IFRS 16 from 1 January 2019, which re-

sulted in the recognition of fixed assets with a net book value at 31 December 2019 of € 63.4 million (for further details, see the section entitled “Effects deriving from the introduction of new accounting standards”).

Investments increased by € 161.9 million (+ 25.7%)

See the following table as regards the investments made in each Operating Segment.

Investments per operating segment

€ million	31/12/2019	31/12/2018	Change	% Change
ENVIRONMENT	51.9	20.0	31.9	159.6%
COMMERCIAL AND TRADING	42.5	24.6	17.9	72.6%
OVERSEAS	7.0	6.6	0.4	6.6%
WATER	380.1	329.7	50.4	15.3%
Integrated water service	378.4	329.5	48.9	14.8%
Others	1.7	0.2	1.5	n.s.
ENERGY INFRASTRUCTURE	287.8	238.3	49.4	20.7%
Distribution	265.7	218.4	47.2	21.6%
Generation	18.8	15.5	3.3	21.5%
Public Lighting	3.3	4.4	(1.1)	(25.9)%
ENGINEERING AND SERVICES	1.8	1.6	0.2	13.6%
Acea (Corporate)	21.7	10.0	11.7	116.3%
Total	792.8	630.8	161.9	25.7%

The **Environment Segment** recorded an increase in investments of € 31.9 million compared with the previous year. They refer mainly to: 1) the revamping of the Monterotondo Marittimo plant; the inauguration of the expansion of the plant for the

treatment of composting and anaerobic digestion waste took place on 10 October; 2) the works carried out at the WTE plants in Terni and San Vittore; 3) the works for the extension of the landfill located in Orvieto.

The **Sales and Trading Segment** recorded an increase of € 17.9 million mainly attributable to Acea Energia for investments related to the acquisition of new customers in accordance with IFRS 15 (€ 17.9 million), for IT implementation projects (€ 14.1 million) and for cloud licences that form the basis of the new Customer Relationship Management (€ 9.9 million).

The **Overseas Segment** recorded an increase of € 0.4 million compared to last year, mainly due to the investments made by Aguas de San Pedro for the expansion and extraordinary maintenance of the water and sewerage network in the areas managed.

The **Water Segment** made investments totalling € 380.1 million, with an increase of € 50.4 million mainly due to the consolidation of Gori and AdF, which contributed € 43.8 million and € 11.1 million respectively. These increases were partly offset by Acea Ato 2, which recorded a reduction in investments of € 8.7 million.

The main investments in the year include those relating to the work carried out for the reclamation and expansion of the water and sewage pipes of the various Municipalities, the extraordinary maintenance of the water centres, the interventions on the treatment plants, works to reduce water leaks and improve relationships with users and the local region and on IT applications.

The **Energy Infrastructure Segment** recorded an increase in investments of € 49.4 million, mainly in areti (+ € 47.2 million), only partly offset by lower investments by Acea Produzione (- € 3.4 million). The investments in areti mainly refer to the renewal and upgrading of the MV/LV network and the development of TSIE Technology, Sustainability and Education Innovation projects (+ € 38.5 million), interventions on primary and secondary cabins and meters. We also note the purchase of the Via Flaminia headquarters (€ 2.8 million). Intangible investments refer to projects for the re-engineering of information and commercial systems. Investments made by Acea Produzione mainly concern plant revamping

works for the Mandela and Tor di Valle and Montemartini hydroelectric power plants; there were also static and functional upgrades of the tunnels deriving from the San Cosimato dam reservoir and the extension of the district heating network in the Mezzocammino district in the south of Rome.

The **Engineering and Services Segment** recorded purchases of equipment for the Grottarossa laboratory and investments in IT systems.

Acea **Corporate** made investments of € 21.7 million (+ € 11.7 million), which mainly refer to IT developments and investments in the company's operations. Group investments concerning shared IT infrastructure totalled € 41.6 million.

Equity investments decreased by € 10.9 million compared to 31 December 2018. The change is due to negative values. Among these we note:

- the valuation of companies consolidated using the equity method for a total of € 44.0 million, which shows a reduction of € 1.8 million compared to 2018;
- the effect in reduction of the distribution of dividends for € 19.9 million;
- the reduction due to the change in the scope of consolidation of € 37.7 million, due to the full consolidation of AdF previously valued using the equity method;
- changes with a positive sign of other comprehensive income for € 2.6 million.

The stock of **employee severance indemnity and other defined benefit plans** reported an increase of € 0.7 million, mainly due to the effect of the change in the scope of consolidation of AdF, partly offset by the decrease in the rate used (from 1.57% at 31 December 2018 to 0.77% at 31 December 2019).

Provisions for risks and charges increased by 10.8% compared to the previous year. Changes during the period are shown below:

€ million	31/12/2018	Uses	Provisions	Payment of Redundancy Funds	Reclassifications/ Other changes	31/12/2019
Legal	13.2	(1.1)	4.4	(2.1)	1.9	16.2
Taxes	10.7	(2.5)	0.7	0.3	0.1	9.3
Regulatory risks	26.6	(6.3)	7.3	(0.1)	0.1	27.6
Investees	7.7	0.0	0.0	0.0	(0.3)	7.5
Contributory risks	1.1	(0.1)	0.4	0.0	(0.0)	1.4
Insurance excess	9.6	(1.7)	3.0	0.0	(0.6)	10.3
Other risks and charges	23.5	(2.8)	4.2	(3.8)	4.1	25.2
Total Provision for Risks	92.3	(14.4)	20.0	(5.6)	5.2	97.5
Early retirements and redundancies	25.7	(24.5)	27.2	(0.8)	1.5	29.1
VAT Variation Notes	0.0	0.0	0.0	0.0	0.0	0.0
Post mortem	16.7	0.0	0.0	0.0	0.4	17.1
Provision for Settlement Charges	0.3	(0.2)	0.0	(0.0)	0.1	0.1
Provision for Charges of others	1.7	(1.3)	6.9	0.0	0.3	7.6
Total Provision for Charges	44.3	(26.0)	34.2	(0.8)	2.2	53.9
Total Provisions for Risks and Charges	136.7	(40.5)	54.2	(6.4)	7.4	151.4

The change in the scope of consolidation (gross of changes during the period) amounts to € 9.1 million. The other main changes in the period include:

- an increase of € 3.4 million in the provision set aside to cov-

er the costs deriving from the Group's mobility and subsidised personnel plan;

- an increase of € 5.9 million in the provision for charges to others, mainly attributable to Acea Ato 5 and relating to the pro-

vision of € 4.5 million resulting from the decisions made during the reconciliation between Optimal Territorial Area Authority no. 5 Southern Lazio - Frosinone) and Acea Ato 5 SpA as investments to be made without any tariff recognition, to be borne entirely by the Operator. For further information see the details discussed in the section “Conciliation Board with AATO 5” included in the section “Significant events for the 2019 financial year”.

The net working capital is negative for € 656.2 million and dropped € 13.5 million compared to the end of 2018

The change in net working capital compared to 31 December 2018 is mainly due to items with an opposite sign like the increase in current receivables (+ € 107.6 million), of which € 71.9 million from users and customers, offset by an increase in current payables of € 75.4 million and other current liabilities of € 16.9 million, as well as a decrease in other current assets of € 37.4 million.

€ million	31/12/2019	31/12/2018	Change
Current receivables	1,035.5	927.8	107.6
<i>due from end users/customers</i>	935.1	863.2	71.9
<i>due to Roma Capitale</i>	86.7	52.5	34.2
Inventories	57.3	48.8	8.5
Other current assets	225.3	262.6	(37.4)
Current payables	(1,600.3)	(1,524.9)	(75.4)
<i>due to Suppliers</i>	(1,472.8)	(1,413.9)	(58.9)
<i>due to Roma Capitale</i>	(121.7)	(107.6)	(14.0)
Other current liabilities	(374.1)	(357.1)	(16.9)
Net working capital	(656.2)	(642.7)	(13.5)

Receivables from users and customers increased by € 71.9 million compared to 31 December 2018, of which € 57.0 million due to the change in scope. Gross of the allowance for doubtful accounts, these receivables increased by € 29.2 million: 1) an increase of € 73.5 million in receivables from the Water Segment, mainly due to the change in the scope of consolidation (+ € 51.7 million) and Acea Ato 2 (+ € 4.6 million); 2) an increase of € 19.0 million in receivables from the Energy Infrastructure Area, mainly due to the recognition of the income from the elimination of the regulatory lag, which amounted at 31 December 2019 to € 87.6 million (+ € 12.2 million), while the non-current portion relating to regulatory accounting, equal to € 91.1 million (+ € 11.1 million), is included under fixed assets; the change in the scope of consolidation related to the acquisition of the photovoltaic companies contributed to the increase in gross receivables for € 8.4 million; 3) the increase in receivables of the Environment Segment for € 7.1 million, mainly resulting from the change in the consolidation area following the consolidation of Demap (+ € 3.3 million) and Berg (+ € 2.7 million); 4) the decrease in receivables of the Commercial and Trading Segment for € 73.2 million resulting from the improved collection performance of Acea Energia.

Receivables from customers are shown net of the Provision for impairment of receivables, amounted to € 651.5 million compared to € 694.2 million at the end of 2018. The change is mainly due to Acea Energia (- € 43.6 million), in relation to uses for the period (- € 70.9 million) net of provisions and other changes (+ € 28.5 million). Receivables totalling € 1,370.6 million were transferred without recourse during 2019, of which € 204.5 million to the Public Administration.

Roma Capitale: net balance is positive for € 33.7 million

As regards the **relations with Roma Capitale**, the net balance at 31 December 2019 was € 33.7 million receivable by the Group, a reduction compared to 31 December 2018. The change in receivables and payables is due to the accrual of the period and the effects of compensations. In 2019, the stock of trade receivables recorded growth of € 34.2 million compared to the previous year, mainly due to the increase in receivables for water accounts.

As regards financial receivables, growth of € 44.6 million was recorded compared to the previous year, to be attributed to the accrual during the period of receivables relative to the Public Lighting service agreement, to the modernisation of security, to extraordi-

nary maintenance, to the LED plan agreement and to the works relating to the Public Lighting service.

Payables increased by a total of € 93.2 million. The main changes are listed below:

- recognition of the payable for Acea's share dividends accrued in 2018 of € 77.1 million, as resolved by the Shareholders in April 2019;
- registration of the portion accrued in the year for the concession fee of Acea Ato 2 for € 25.0 million;
- inclusion of the debt for Acea Ato 2 security dividends accrued in 2018 equal to € 2.4 million;
- reduction in payables relating to authorisations for excavations defined as new road cables regulations for - € 2.6 million;
- decrease in the Acea Ato 2 concession fee for 2016 for a total of € 85 million following payment through compensation.

Note that in April 2019 areti paid the Cosap for the current year worth € 1.4 million.

As described in the Consolidated Financial Statements as at 31 December 2018 as part of the activities required for the first consolidation of the Acea Group in the 2018 Financial Statements of Roma Capitale, a round table was launched to reconcile the Roma Capitale Receivables and Payables. After several meetings and communications, on 22 February 2019 the technical department of the Municipality in charge of the management of the contracts with the Acea Group communicated several objections relating to the supply of both works and services for the period 2008-2018. These objections were fully rejected by the Group.

On 26 February 2019 the General Management of the Municipality of Rome sent a communication stating that it had taken note of the objections raised by the technical department and the lack of recognition thereof by the Acea Group, and in order to find a complete resolution of the differences it proposed setting up a Joint Technical Committee with the Acea Group that could resolve the mutual claims.

Following several meetings, on 18 October 2019 the Joint Technical Committee drew up a report on the closure of the work, highlighting the results that emerged and proposing a favourable restart of the ordinary execution of the mutual obligations between the Acea Group and Roma Capitale. As a first step after the completion of the work, the parties took steps to implement the results that emerged from the discussions, restarting the payment of their respective receivables and payables.

In particular, between December 2019 and March 2020 the following offsets were made for a total of € 39.3 million; the types of receivables concerned are listed below:

- December 2019: receivables for € 7.2 million relating to water services for the years 2009-2014 in exchange for the Acea Ato 2 concession fee;
- December 2019: receivables for € 1.3 million mainly for works for the completion of the water and sanitary network for 2009 and water service contract for 2018 in exchange for the Acea Ato 2 concession fee;
- February 2020: receivables for Public Lighting for € 10.5 mil-

lion referring to 2018 and 2016-2018 pro-rata amounts in exchange for Acea's share dividends for the year 2018;

- March 2020: receivables for € 20.4 million relating to water services for the years 2017-2018 in exchange for the Acea Ato 2 concession fee.

Also note that in December 2019 Roma Capitale approved its Consolidated Financial Statements as at 31 December 2018, including for the first time the Acea Group in this scope of consolidation.

The following tables also provide a breakdown of Group receivables/payables due from/to Roma Capitale.

Amounts due from Roma Capitale

€ million	31/12/2019	31/12/2018	Change
Utility receivables	90.6	55.6	34.9
Provisions for write-downs	(9.3)	(9.3)	(0.0)
Total receivables from users	81.2	46.3	34.9
Receivables for water works and services	2.5	3.3	(0.8)
Receivables for water works and services to be invoiced	1.5	1.5	(0.1)
Contributions	0.0	0.0	0.0
Provisions for write-downs	(1.9)	(1.9)	0.0
Receivables for electrical works and services	3.8	3.6	0.2
Provisions for write-downs	(0.3)	(0.3)	(0.0)
Total receivables for works	5.5	6.2	(0.7)
Total trade receivables	86.7	52.5	34.2
Financial receivables for Public Lighting services billed	138.8	99.1	39.7
Provisions for write-downs	(30.2)	(30.2)	(0.0)
Financial receivables for Public Lighting services to be billed	39.2	25.7	13.5
Provisions for write-downs	(15.0)	(9.8)	(5.1)
M/L term financial receivables for Public Lighting services	15.2	18.7	(3.5)
Total Public Lighting receivables	148.2	103.5	44.7
Total Receivables	234.9	156.0	78.9

Payables due to Roma Capitale

€ million	31/12/2019	31/12/2018	Change
Electricity surtax payable	(15.3)	(15.3)	0.0
Concession fees payable	(96.4)	(79.8)	(16.6)
Other payables	(10.1)	(13.0)	2.9
Dividend payables	(79.5)	0.0	(79.5)
Total payables	(201.2)	(108.1)	(93.2)
Net balance receivables payables	33.7	47.9	(14.3)

Current payables increased by € 75.4 million

Current payables increased by € 75.4 million compared to the end of 2018 due to the increase in trade payables (+ € 58.9 million), mainly due to the change in the scope of consolidation (+ € 45.4 million) largely relating to AdF (+ € 34.6 million) and payables to parent company for € 14.0 million primarily attributable to Acea Ato 2 (+ € 16.6 million) for payables to Roma Capitale relating to the concession fee. The **other current assets and liabilities** recorded a decrease of € 37.4 million and an increase of € 16.9 million respectively compared to last year. More specifically, other assets decreased as a result of the reduction in receivables from the energy equalisation compensation fund (- € 22.7 million) and receivables for fair value of commodities (- € 8.6 million). As regards the increase in other current liabilities, the change in the scope of consolidation accounted for € 31.9 million, of which € 16.5 million for payables relating to the acquisition of equity investments in the photovoltaic sector.

There was also an increase in payables to Municipalities (+ € 10.4 million), in payables to the Equalisation Fund (+ € 7.5 million) partly offset by the reduction in payables for IRES and IRAP (- € 15.6 million).

Shareholders' equity amounted to € 2.1 billion

The **net shareholders' equity** amounted to € 2,106.7 million. The changes, amounting to € 203.2 million, are analytically described in the relevant table and are basically due to the distribution of dividends, the accrual of period profits, the change in the area of consolidation and the change in the cash flow hedge reserves and those formed by actuarial profits and losses.

Net financial debt increased by € 494.8 million compared to the end of 2018

Group **debt** recorded an overall increase of € 494.8 million, going from € 2,568.0 million at the end of 2018 to € 3,062.8 mil-

lion at 31 December 2019. This change is a direct consequence of the growing increase in investments made during the period, including those of a technological nature, and of the dynamics of the operating cash flow. The financial liability relating to the application of IFRS 16 (from 1 January 2019) for € 64.3 million contributed to the increase in debt. With regard to the change in the

scope of consolidation, the new consolidation of AdF contributed € 89.6 million, that of Pescara Distribuzione Gas € 7.1 million and the new companies in the Environment Segment (Berg and Demap) a total of € 0.8 million. Moreover, the increase is also due to the as yet unpaid 2018 dividends from Roma Capitale for € 77.1 million.

€ million	31/12/2019	31/12/2018	Change	% Change
Non-current financial assets/(liabilities)	2.4	1.8	0.5	29.5%
Parent company, subsidiaries and associates current financial assets/(liabilities)	26.2	30.9	(4.7)	(15.2)%
Non-current borrowings and financial liabilities	(3,551.9)	(3,374.1)	(177.8)	5.3%
Net medium/long-term debt	(3,523.4)	(3,341.4)	(181.9)	5.4%
Cash and cash equivalents and securities	835.7	1,068.1	(232.4)	(21.8)%
Short-term debt	(541.9)	(351.8)	(190.1)	54.0%
Current financial assets/(liabilities)	111.5	(29.0)	140.5	n.s.
Parent Company and Associates non-current financial assets/(liabilities)	55.3	86.1	(30.8)	(35.8)%
Short-term financial position	460.5	773.4	(312.8)	(40.5)%
Total net financial position	(3,062.8)	(2,568.0)	(494.8)	19.3%

As regards the **medium/long-term component**, the increase of € 181.9 million compared to the end of 2018 refers almost exclusively to € 177.8 million for the increase in non-current payables and financial liabilities.

This change derives from the increase in bonds for € 75.9 million and in the increase in non-current financial payables and liabilities for € 101.8 million, as shown in the following table:

€ million	31/12/2019	31/12/2018	Change	% Change
Bonds	2,754.3	2,678.4	75.9	2.8%
Medium/long-term borrowings	797.6	695.7	101.8	14.6%
Medium/long-term debt	3,551.9	3,374.1	177.8	5.3%

Bonds of € 2,754.3 million increased by a total of € 75.9 million mainly due to the combined effect of the placement of the bond issued in May 2019 by the Parent Company under the Euro Medium Term Notes (EMTN) programme (€ 493.3 million including the long-term portion of the underwriting costs) and the reclassification of the bond issued by the Parent Company and maturing on 16 March 2020 as a short-term position (€ 422.7 million including the residual portion of the underwriting costs).

Medium/long-term loans of € 797.6 million saw an overall increase of € 101.8 million due to the combined effect of the recog-

nition of the medium/long-term portion of the financial liability relating to the application of IFRS 16 amounting to € 51.7 million and the newly-consolidated AdF for € 114.2 million and the new photovoltaic companies for € 7.5 million, from the acquisition of Pescara Distribuzione Gas for a total of € 1.2 million offset by the reduction of the Parent Company for € 41.0 million for the reclassification of the shares maturing in the following financial year for existing loans.

The following table shows medium/long-term and short-term borrowings by term to maturity and type of interest rate:

Bank Loans	Total Residual Debt	By 31/12/2020	from 31/12/2020 to 31/12/2024	After 31/12/2024
€ million				
fixed rate	227.2	25.8	137.2	64.3
floating rate	583.1	47.9	288.5	246.6
floating rate to fixed rate	17.7	8.3	9.3	0.0
Total	827.9	82.0	435.1	310.8

The fair value of Acea hedging derivatives was a negative € 1.0 million, decreasing by € 1.0 million compared to 31 December 2018 (was a negative € 2.1 million), while that of AdF was negative for € 4.1 million.

The short-term component was positive for € 460.5 million, a reduction of € 312.8 million

The **short-term** component is positive for € 460.5 million and, compared with the end of 2018, showed a reduction of € 312.8 million due for € 232.4 million to the reduction in cash and cash equivalents, of which € 290.4 million relating to the Parent Company offset by the change in the scope of consolidation. The recog-

nition of the short-term portion of the financial liability relating to the application of IFRS 16 is € 12.8 million.

The Acea rating

At 31 December 2019 the Parent Company held unused uncommitted credit lines totalling € 628 million. No guarantees were granted in obtaining these lines.

It must be noted that the long-term Ratings assigned to Acea by the International Ratings Agencies were:

- Fitch “BBB+”;
- Moody’s “Baa2”.

REFERENCE CONTEXT

The Acea Group monitors the scenario of reference – internal and external – intercepting and analysing the factors assuming relevance for the company and which can affect the pursuit of strategic goals. In particular, the corporate sustainability, normative, regulatory, technological, competitive, market and environmental settings represent different aspects integrated into an overall framework,

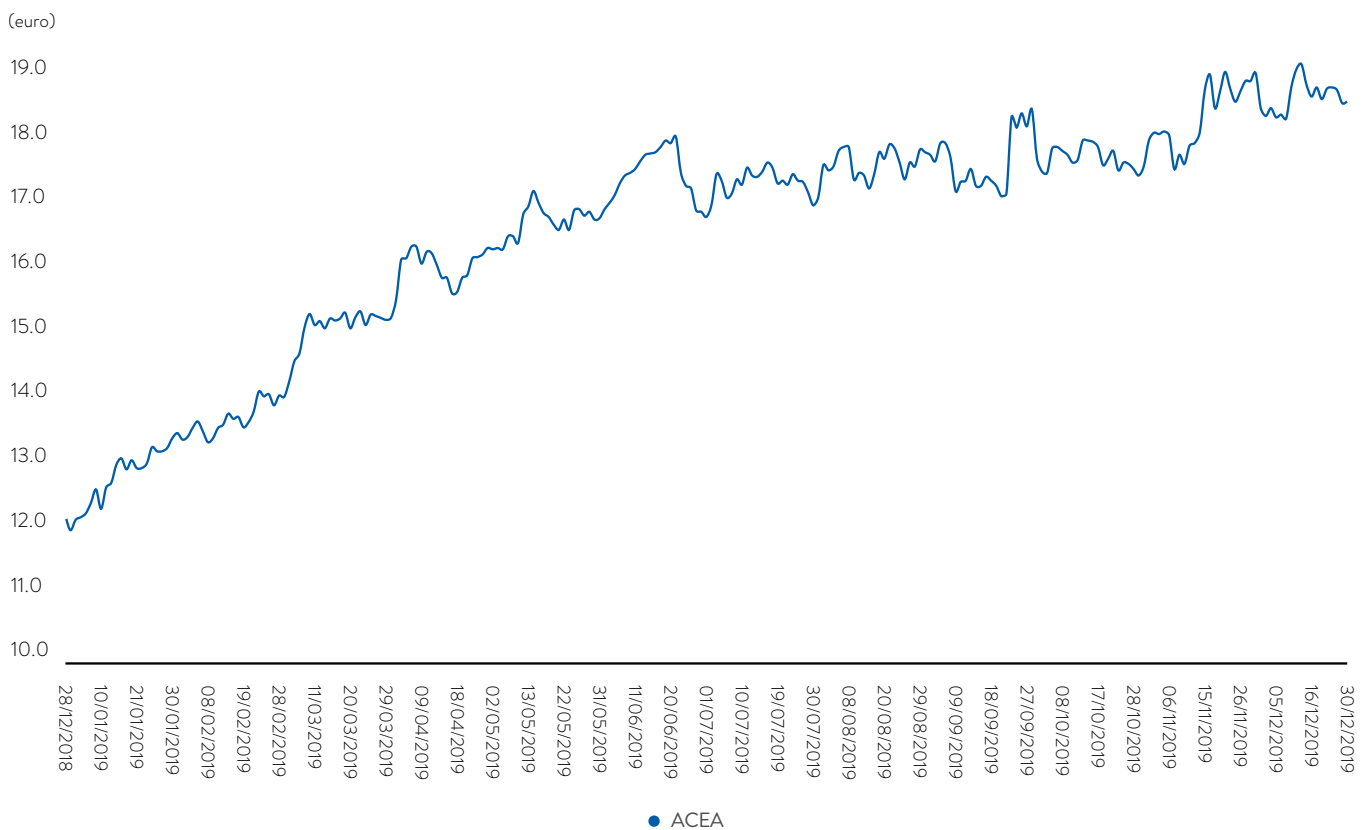
which outlines the context within which management activities and the outlook of the organisation are to be included. These are supplemented by the context within the Group – in terms of energy and environmental impacts, development of human capital, protection of workers’ health and safety – and management of the supply chain.

PERFORMANCE OF THE EQUITY MARKETS AND THE ACEA SHARE

In 2019, the international stock markets performed positively overall, recovering the losses reported in the first months of the year and at the end of 2018. European prices were mainly influenced by political issues (European elections, Brexit), while the US stock exchange was mainly affected by the evolution of trade tensions between the US and China.

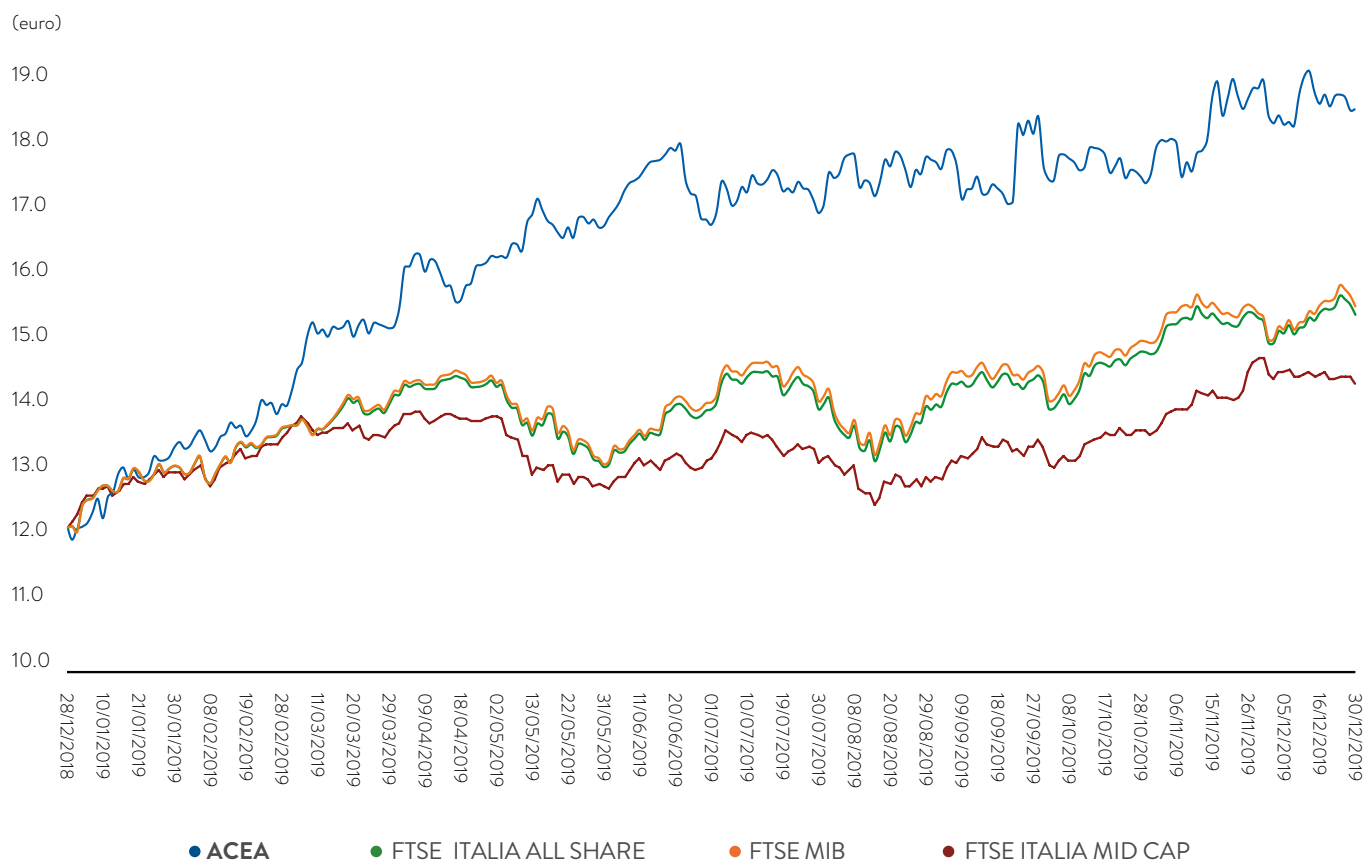
Acea shares performed well with 53.5% growth, significantly outperforming the market (FTSE Italia All Share +27.2%). In detail, the closing price on 30 December (last trading session in 2019) was € 18.44 (capitalisation € 3,927 million).

The maximum value of € 19.02 was reached on 12 December, while the minimum value of € 11.82 was reached on 2 January. During the period under analysis, average daily volumes were around 157,000 shares, higher than the 116,000 in 2018.



(Source: Bloomberg)

The following graph shows re-based figures for Acea's share price, compared to Stock Market indices.



(Chart normalised to Acea values - Source: Bloomberg)

% Change at 31/12/2019 (compared to 31/12/2018)

Acea	+53.5%
FTSE Italia All Share	+27.2%
FTSE Mib	+28.3%
FTSE Italia Mid Cap	+18.3%

145 reports/notes were published on Acea shares in 2019.

ENERGY MARKET

In 2019, electricity demand in Italy (equal to 319,597 GWh)³ increased by 0.6% compared to the same period of the previous year. 88.8% of electricity requirements were covered by national (Italian) production and the remaining share, amounting to 12.2%, was covered by imports from abroad (balance of imports down by 13.1% compared to last year). The net national production (238,846 GWh) showed an increase of 1.4% compared to 2018. Specifically, electricity produced from thermal production sources increased by

1.3%, as did electricity produced from wind systems (- 14.3%) and solar systems (+ 9.3%), while energy produced by water (- 5.9%) and geothermal sources (- 1.2%) dropped.

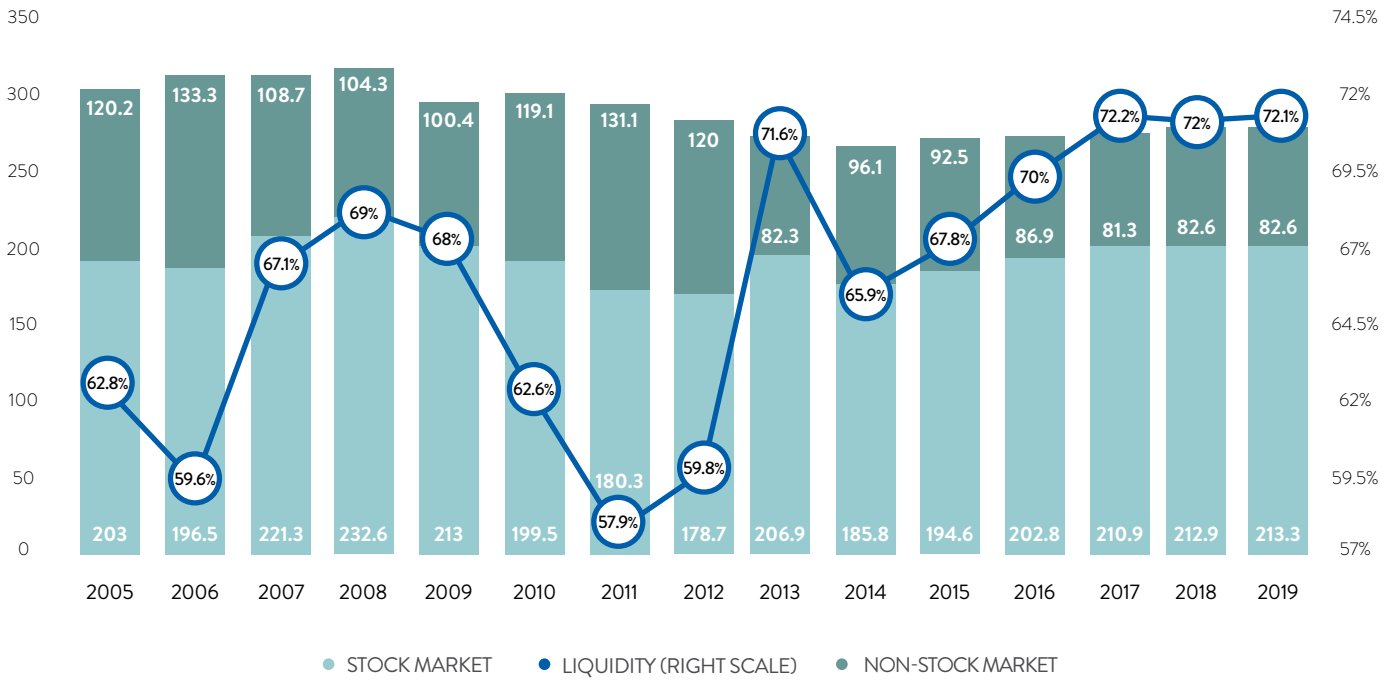
With regard to the results of the Italian electric power market, volumes traded in Italy grew only slightly on an annual basis (+0.1%) to 295.8 TWh.

Volumes traded on the power exchange increased by 0.2% to 213.3 TWh, while volumes traded over the counter, recorded on the PCE and named on the MGP, decreased to 82.6 TWh (- 0.1%).

The market's liquidity thus stood at 72.1%, remaining stable for the third consecutive year at an all-time high, increasing by 0.1% over 2018.

³ Source: Terna - December 2019, monthly report on the electricity system.

LIQUIDITY ON THE DAM⁴



During 2019, the average energy purchase price (PUN) recorded an average value of € 52.32/MWh, down by € 8.99/MWh compared to 2018 (- 14.7%). An analysis of hourly segments showed downward trends both in off-peak hours, where there was a decrease of € 8.79/MWh (- 15.3%) and in peak hours, where there was a decrease of € 9.35/MWh (- 13.7%). Prices stood at € 48.7/MWh and € 59.12/MWh respectively. The peak/baseload price ratio was 1.13 (+ 0.01 compared to 2018).

There was a clear annual reduction in sales prices and an alignment in the peninsular areas and in Sardinia at a value of € 51-52/MWh.

DAM: NATIONAL SINGLE PRICE (PUN)⁵



Zone sales prices range from € 50.89/MWh in the South to € 62.77/MWh in Sicily.

There was a clear annual reduction in sales prices and an alignment in the peninsular areas and in Sardinia at a value of € 51-52/MWh.

⁴ Source: Terna - December 2019, monthly report on the electricity system.

⁵ Source: Energy Market Operator (GME) December 2019 Newsletter.

DAM: SALE PRICES⁶



Domestic purchases totalled 289.0 TWh, down 1.0%. The analysis by area shows a reduction in purchases in the North (- 1.5%) and in Sicily (- 1.9%).

Purchases of energy in foreign areas (exports), amounting to 6.8 TWh, grew sharply (+82.6%) to one of the highest levels recorded to date. The sales of electricity produced nationally reached 250.7 TWh, a decisive increase compared to a year ago (+ 1.3%).

The changes observed, in particular in the Centre North (+ 4.9%), Sardinia (+ 2.3%) and the South (+ 1.9%) were offset by decreases in the Centre South (- 4.2%).

Energy sales in foreign areas (imports) dropped, reaching 45.1 TWh (- 6.1%).

from the reference tariff for determination of the restriction on revenue permitted to each company (the reference tariff).

The compulsory tariffs for the year 2019 were published with resolution 671/2018/R/eel on 18 December 2018.

The rules in force in the new regulatory period include:

1. Regulatory lag and return on invested capital;
2. Extension of regulatory useful life;
3. Tariff adjustment criteria: cost coverage, measurement.

With regard to the first point, the ARERA has changed the manner for offsetting the regulatory lag, recognising new investments made both for Distribution and for measurement (no retroactivity).

The criterion based on the increase in the investment rate of return granted to new investments, equal to 1% (year t-2), has been replaced by recognition in the capital base (RAB) also of the investments made in year t-1, evaluated on the basis of pre-final data communicated to ARERA. These data will be used for the determination of the provisional tariffs of reference published by 31 March and then replaced by the final data for the determination of the definitive tariffs of reference published by February of the following year. On 5 March 2019, the ARERA published the definitive reference tariff for the electricity distribution service for the year 2018 with resolution 76/2019/R/eel.

On 2 April 2019, the ARERA published the provisional reference tariff for the electricity distribution service for the year 2019 with resolution 117/2019/R/eel. In the year t, the ARERA only recognises the remuneration of the invested capital concerning the assets which entered use in the year t-1, without recognising the relevant amortisation rates (which are still recognised in the year t-2).

With reference to depreciation recognised in the tariff, the new regulation increases the useful regulatory life of certain assets, such as HV electric lines (increased from 40 to 45 years), MV and LV lines and “end users’ connection points” (from 30 to 35 years).

TRANSPORT SERVICE TARIFFS

2019 was the fourth year of the new regulatory period, the term of which has been increased from four to eight years (2016-2023) divided into two sub-periods: the first four with method continuity, the method for the others to be subsequently implemented.

“Integrated Text of dispositions of the Authority for supplying electricity transmission and distribution services (TIT)”, Annex A to resolution 654/2015/R/eel, the “Integrated Text of dispositions of the Authority for the supply of the electricity metering service (TIME)”; Annex B to resolution 654/2015/R/eel, and the “Integrated Text on dispositions of the Authority for the economic conditions for supplying connection services (TIC)”, Annex C to resolution 654/2015/R/eel, published on 23 December 2015.

For the distribution service, ARERA confirmed unbundling of the tariff applied to end customers (the so-called compulsory tariff)

⁶ Source: Terna - December 2019, monthly report on the electricity system.

With resolution 639/2018/R/COM of 6 December 2018, ARERA updated the values of the parameters used to calculate the rate of return on net invested capital (WACC) for the three-year period 2019-2021, establishing a value of 5.9% for the distribution service. In terms of operating costs, the new company-based tariff covers the specific costs by means of a national average cost adjustment coefficient, calculated by the ARERA on the basis of actual company costs and on the basis of scale variables.

These costs, when calculating the company-based tariff, according to the definitions of Resolution no. 654/2015, are supplemented by flat rate connection contributions acknowledged throughout Italy, and will be considered as other grants and no longer deducted from operating costs.

Furthermore, the flat rate connection contributions of each company are deducted directly from the invested capital considering them as equal to MV/LV assets.

Updating of the distribution reference tariff after the first year is individual and based on financial increases reported by the companies on the RAB databases. The updating criterion envisages that:

- the part of the tariff hedging the operating costs be updated using the price-cap mechanism (with the goal of a 1.9% recovery of productivity);
- the part hedging the costs concerning the remuneration of the invested capital be updated through the deflator of the fixed gross investments, the change in the volume of service provided, the gross investments that are operational and differentiated by level of voltage and rate of change connected to the increased remuneration recognised for incentivised investments;
- the part hedging the amortisations be updated through the deflator of the fixed gross investments, the change in volume of service provided, the rate of change connected to the reduction in the gross invested capital due to disposal, withdrawal and end of useful lifetime and the rate of change connected to the investments that are now operational.

With the consultation documents 318/2019 and 481/2019 published respectively on 23 July and 22 November 2019, ARERA revised the criteria for the infra-period update of the regulation on transmission, distribution and measurement.

In particular, guidelines are given for updating the methods for determining the cost recognised to cover operating costs and for refining certain aspects of infrastructure regulation for transmission service. With regard to this document, on 30 September 2019 the detailed data requested by ARERA concerning the costs of the 2016-2018 Unbundling Financial Statements were provided in order to redetermine the level of Opex for the next regulatory period.

The ARERA confirms for 2019 the mechanism, already introduced in the third regulatory period, for the higher remuneration of certain categories of investments made until 2015, not extending this mechanism also for the 2016-2023 cycle.

As regards marketing activities, the ARERA introduces a single reference tariff that reflects both the costs for managing the network service and marketing costs, with recognition of the specific capital costs also for investments in marketing activities (single all-inclusive company tariff for the distribution and marketing service).

With regard to the transmission tariff, the ARERA confirmed the introduction of a binomial tariff (capacity and consumption) for high voltage customers, and the cost tariff structure for the transmission service to Terna (CTR), also introducing a binomial price. Given the two tariffs, the equalisation mechanism has been confirmed.

The general equalisation mechanisms for distribution costs and revenue for the regulatory cycle in force are:

- equalisation of the revenues from the distribution service;
- equalisation of metering revenues;
- equalisation of the transmission costs;

- equalisation of the value of the difference between effective losses and standard losses.

The purpose of equalising the revenues of the distribution service is to equalise the revenues deriving from the comparison between the revenues billed to users through the compulsory tariff and the distributor's allowed revenues, calculated through the company's tariff of reference.

The equalisation of transmission costs is aimed at making the cost recognised to Terna for the transmission service (CTR) pass through the distributor, with the amount paid by end customers through the mandatory transmission tariff (TRAS).

With resolution 677/2018/R/eel of 18 December 2018, ARERA confirmed for the year 2019 the values of the agreed percentage loss factors to be applied to withdrawals, feed-in and interconnections between networks in Table 4 of the TIS, and initiated a procedure to finalise the regulation of losses with particular reference to the mechanism for equalisation of the same applied to distribution companies. This standard loss factor per company has been divided between technical and commercial losses.

On 19 December, Resolution no. 559/2019/R/eel confirmed the standard loss values to be applied to withdrawals, injections and interconnections between networks referred to in Table 4 of the TIS for the year 2020, and the Authority extended the deadline for the conclusion of the proceedings initiated by Resolution no. 677/2018/R/eel to 30 May 2020.

On 2 April, with Circular no. 6/2019/ELT, CSEA published the application to participate in the mechanism for mitigating the process of increasing the efficiency of commercial losses, pursuant to art. 26 of annex A to Resolution 301/2012/R/eel (TIV).

On 30 April, areti presented the information requested in the application form, declaring that it had implemented targeted actions to identify and contain commercial losses during the three-year period under evaluation (starting with the equalisation for the year 2016).

On 1 August, CSEA communicated the positive outcome of the application confirming the non-applicability of the amount established by paragraph 26.1 (TIV) to be settled due to the containment of commercial losses for each distribution company.

Equalisation of the purchase of electricity supplied for own use in transmission and distribution continues to be regulated in the new regulatory period.

In the new Transport Integrated Text, the ARERA has confirmed the mechanism of advance recognition on a two-monthly basis, of equalisation balances for revenue from the distribution service and transmission costs. With letter no. 8293 dated 27 May 2019, CSEA communicated the amount of these advance payments expected for the year 2019.

The Measurement Integrated Text (TIME) governs tariffs for the metering service, divided into meter installation and maintenance, taking meter readings, confirming and recording readings. The structure of the fees has been changed compared to the previous regulatory period only with regard to the fees for collection and validation of meter readings, previously broken down and now unified into a single fee.

The ARERA has introduced a new method of recognising the capital costs for low voltage electronic meters, for firms serving more than 100,000 grid points, based on criteria for determining the investments effectively realised by the single firms and retaining the criterion of calculating the measurement service tariffs on the basis of the national costs for the remote management systems and the electromechanical devices still being used (residual cost), also retaining the measurement equalisation for the fifth regulatory cycle. The equalisation mechanism is intended to equalise the revenue from the comparison of the obligatory tariffs billed to end users and the revenue valorised in the reference tariff.

On 5 March 2019, the ARERA published the definitive reference tariff for the electricity metering service for the year 2018 with resolution 76/2019/R/eel.

On 2 April 2019, the ARERA published the provisional reference tariff for the electricity metering service for the year 2019 with resolution 117/2019/R/eel.

The tariffs hedging the measurement service are updated, as are those for the distribution service, using the price-cap mechanism for the part hedging the operating costs (with the goal of a 1% recovery of productivity) and with the deflator, variation in invested capital and rate of change of the volumes supplied for the part hedging the invested capital and amortisations. The rate of remuneration of the measurement capital is the same as that for the distribution service.

Note that with resolution no. 646/2016/R/eel of 10 November 2016, the ARERA has shown how the definition and recognition of costs related to second generation (2G) smart metering systems for measuring low voltage electricity. On 8 March 2017, it published a release in which it updated the evaluation of the plan for entry into service of the 2G smart metering system prepared by e-distribuzione SpA. In order to present ARERA with an illustrative report on the commissioning plan of the 2G smart meter system, the company defined a project for the development of this system with the aim of replacing the current system of electronic meters. Starting in 2017, and only with regard to the investments that come into operation in 2017, the ARERA has established in the same resolution that for the annual updating of the return on invested capital and depreciations concerning metering points effectively in low voltage, for each distribution firm, the maximum gross investment value recognisable per meter installed in 105% of the corresponding gross investment value per meter for the investments that came into operation in 2015.

On 20 March 2019, with the consultation document 100/2019/R/eel, the Authority introduced an update for the three-year period 2020-2022 of the provisions on the determination and recognition of costs relating to second generation (2G) smart metering systems. In particular, the proposals set out in the consultation document include:

- the possibility of setting obligations on the timing of commissioning of 2G systems together with the modulation of the “conventional plan” in order to reduce the risk of a “two-speed country”; the updating and simplification of the provisions relating to admission to the shortened programme for companies that launch their plan for commissioning 2G smart metering systems in that three-year period;
- the assessment of the provisions of Decree 93/2017 of the Minister for Economic Development concerning the periodic verification of electricity meters and the extra costs that could result from them;
- the possibility of introducing provisions to quantify the penalties to be applied in the event of non-compliance with the expected levels of performance of 2G smart metering systems.

This was followed by Resolution no. 306/2019/R/eel on 16 July, which confirmed the guidelines presented in the previous consultation document. Specifically:

- the Authority set 2022 as the deadline for the start of the plans for the commissioning of 2G systems and established that the mass replacement phase for the meter must be completed by 2026 (with a target of 95% of the meters included in the plan). Furthermore, in order to avoid the “two-speed country” risk, a new method of calculating the “conventional plan” was introduced for companies that have not yet submitted their rollout plan;
- starting from the 4th year of each PMS2, penalties are intro-

duced for failure to meet expected performance levels, with annual and multi-annual ceilings on penalties for greater protection of service users.

On 20 September, areti sent the Authority the request for admission to the recognition of investments under the specific regime together with the plan for the commissioning of the 2G smart metering system and the other documents required by Resolution no. 306/2019/R/eel. The documentation was made available on 23 September on the areti website, and on 21 October a public session was held to present the Plan, during which the Company responded to the comments made by participants. On 20 December the Authority requested detailed information on the actual operating capital costs of Measure 1G and 2G set out in PMS2.

On 27 December, with Resolution no. 568/2019/R/eel, the Authority updated the tariff regulation for electricity transmission, distribution and metering services for the 2020-2023 regulatory period.

The “Integrated Text on dispositions of the Authority for the economic conditions for supplying connection services (TIC)”, Annex C to Resolution 654/2015/R/eel, governs the economic terms for the provision of connection services and specific services (transfers of network equipment requested by end users, contract transfers, disconnections, etc.) to paying end users, essentially in line with the previous regulatory period.

THE ITALIAN WASTE MANAGEMENT MARKET

The current situation of production and treatment capacity for waste in the traditional operational areas of the Acea Group and in the neighbouring areas shows a high “potential demand” for waste management (disposal in landfills, waste-to-energy, composting and biogas production, sludge and liquid waste treatment, recycling of mixed materials and production of secondary raw materials). This is facilitated by a national regulatory framework that provides incentives, by European directives on the recovery of materials and energy and by the European Union’s policy guidelines on the circular economy (closing the loop), which are being implemented at the national level by virtue of a delegated law that has given the government the obligation to update environmental legislation – adapting it to the new EU standards – by 2020. Opportunities for development in the sector are therefore highlighted, also facilitated by the availability of new technologies (for example in composting) and by possible forms of industrial integration with other operators.

WATER REGULATION

The following paragraphs illustrate the main developments that took place during 2019, both with regard to the regulatory framework of reference and, more in detail, with regard to sector regulations.

SECTOR REGULATIONS

During the period of reference the main focus of regulatory developments was the issue of water infrastructure, with the enactment of various measures aimed at promoting and supporting investments in order to overcome the sector’s infrastructure gap.

In February 2019, the Italian Prime Ministerial Decree of 28 November 2018 “Allocation of the resources of the Fund for Infrastructure Investment and Development of the Country, referred to in article 1, paragraph 1072, of Italian Law no. 205 of 27 Decem-

ber 2017” was published in the Official Gazette (General Series no. 28 of 2/2/2019). The measure provides for the distribution of the Fund for financing the country’s development of investments and infrastructure among the state’s central administrations, as specified in the list attached to it. With regard to the integrated water service, the resources envisaged are reported in letter “c) infrastructure, including the water network and sewerage and purification works”, with the relevant Central Administrations, the Ministry of Agricultural Policies and the Ministry of Infrastructure and Transport; the overall total for the period 2018-2033 amounts to over € 790 million. For the purposes of assessing the progress of the programmes financed and the main critical points encountered in the implementation of the interventions, by September 15 of each year each Ministry must send a special report to the Presidency of the Council of Ministers, the Ministry of Economy and Finance and the relevant parliamentary committees.

In the following month, on the other hand, the adoption of the Extraordinary Plan for the implementation of projects in the water sector was published in Official Gazette no. 67 of 20 March 2019, by interministerial decree no. 526 of 6 December 2018 of the Ministry of Infrastructure and Transport in agreement with the Ministry of Agricultural Policies, referring to the MIT homepage for the text of the measure. The Extraordinary Plan adopted pending the definition of the National Plan for projects in the water sector (Italian Law 205/2017 art. 1, paragraph 23) includes 30 projects in the final and executive planning stage (for a total value of about € 250 million) concerning multi-objective reservoirs and water saving in agricultural and civil uses.

With regard to the National Plan for projects in the water sector, as per art. 1, paragraph 516 of Italian Law no. 205/2017, the decree of the Italian Prime Minister of 17 April 2019 “Adoption of the first excerpt of the National Plan for projects in the water sector – reservoir section” was published in Official Gazette no. 148 of 26 June 2019. The National Plan, which was to be adopted within 120 days of the date of entry into force of Italian Law 205/2017, may also be approved by means of one or more decrees of the President of the Council of Ministers and is to be updated, as per regulation, every two years, taking into account the state of progress of the projects carried out, existing plans and new necessary and urgent projects. ARERA had issued a favourable opinion on the draft measure with comments (Opinion 160/2019). There are a total of 57 projects included in the adopted excerpt, divided into two groups based on the type of public resources allocated: 30 works for an overall total of € 200 million financed with resources referred to in article 1, paragraph 1072 of Italian Law 205/2017, while the remaining 27 works for an overall total of € 60 million draw on resources referred to in article 1, paragraph 155 of Italian Law 145/2018. These include the design and construction of important water interconnections, the completion or adaptation of dams and major works to make aqueducts safe, with those carrying out the projects including both operators regulated by ARERA and entities of a different nature (Regions, Basin Authorities, Land Reclamation Consortia). In particular, it is important to note the inclusion in the projects listed in Annex 1 of the work “Safety measures for the Peschiera – Marcio aqueduct systems. 1st lot of water collection works”, for an amount of € 5 million, whose project status is specified as preliminary. The Italian Prime Ministerial Decree also sets out the procedures for the implementation of the projects through special agreements between the parties involved and the General Management for Dams and Water and Electricity Infrastructure pertaining to the MIT; monitoring will be carried out through the public works monitoring system of the Public Administration Database, pursuant to Italian Legislative Decree 229/2011. Finally, it is specified that for technical-administrative support, the design and execution of the projects and for related monitoring the party carrying out the

project may make use of public bodies and in-house State companies with specific technical expertise pursuant to article 1, paragraphs 523 and 523 bis of Italian Law no. 205/2017. With regard to the reservoirs section, subsequent Italian Ministerial Decree 345/2019 of the MIT (notice of publication in the Official Gazette 247 of 21 October 2019) adopted the indicators for the assessment of projects and the criteria for the allocation of resources between District Basin Authorities; these allocation criteria are subject to verification and revision when the national plan is approved and may also be subject to revision when the plan is updated.

With regard to the aqueducts section of the National Plan, the Prime Minister’s Decree “Adoption of the first excerpt of the National Plan for projects in the water sector - aqueducts section” was published in Official Gazette no. 226 of 26 September 2019, which confirms the 26 projects identified by ARERA in its Report no. 252/2019/I/IDR (for a total value of € 80 million for the two-year period 2019-2020) and gives the Authority the task of establishing its own measures to regulate the conditions, terms and methods of disbursement of resources for the implementation of the projects. With resolution 425/19 of 25 October 2019, ARERA subsequently approved these regulations. The works will be financed with the appropriation envisaged in art. 1, paragraph 155, of Italian Law no. 145/2018 (€ 100 million per year for the years from 2019 to 2028, of which € 60 million per year for the “reservoirs” section), and their monitoring will be carried out, pursuant to art. 1, paragraph 524, of Italian Law no. 205/2017, also through the public works monitoring system of the Public Administration Database.

On 13 November 2019, the Cassa per i Servizi Energetici e Ambientali (CSEA) published Circular no. 37/2019/IDR concerning the requirements for the payment of the first instalment on account for the implementation of the first part, and with resolution no. 512/2019 of 3 December 2019 ARERA authorised CSEA to pay the advance payment for the projects found to be eligible based on the outcome of assessments of the needed requirements.

It should also be noted that the expected Prime Minister’s Decree on the Water Works Guarantee Fund, a measure envisaged by the Environmental Annex (Italian Law 221/2015) to the Italian 2016 Stability Law, has finally been published. Prime Minister Decree 30/05/2019 (published in Official Gazette no. 168 of 19 July 2019) identifies the priority projects and the criteria for the use of the Guarantee Fund, which will support the financeability of the investments in compliance with the management methods defined by ARERA through the granting of guarantees directly to the operators of the integrated water service and concessionary operators of large or small dams or, alternatively, through the granting of direct repayment guarantees for the debt owed to lenders or investors by operators. The guarantees will be allocated – with priority for drinking water use – to the implementation of the projects envisaged in the National Water Plan, projects not yet financed and started that qualify as necessary for the adaptation of water infrastructure to technical quality parameters, and projects concerning small dams not included in the National Plan. The Fund must be financed by the specific UI4 tariff component introduced by resolution ARERA 8/2020 “Definition of the management methods of the water works guarantee fund” as of 1 January 2020 and equal to 0.4 cent/€ per cubic metre, which must be specified separately in the bill. In December, the Decree of the Ministry of the Economy of 19 November 2019 “Criteria, conditions and methods of the State guarantee assisting the projects of the Guarantee Fund pursuant to article 58, paragraph 1, of Italian Law no. 221 of 28 December 2015” (OG no. 293 of 14 December 2019) was published. The measure, envisaged under article 6 of Prime Ministerial Decree 30/05/2019, governs the procedures for requesting the enforcement and payment of the State’s guarantee of last resort, which operates in the event of default by the Guarantee Fund for water works up to the amount owed by the Fund for the guarantee

granted. The methods for monitoring potential impacts on the State's guarantee of last resort are also defined. In particular, the CSEA will report annually to the MEF on the economic and financial equilibrium of the Fund and its sustainability. If economic and financial imbalances emerge that could compromise the Fund's sustainability, the MEF may propose to the CSEA and the MIT the adoption of measures aimed at limiting the potential impacts on the State guarantee of last resort and on public finance. If these measures are not appropriate, the operation of the State guarantee may be suspended until the imbalances are overcome.

A further measure related to the issue of infrastructure and specifically with regard to the IWS of dams is the DM-MIT 430/2019, in force since 21 November 2019, relating to the creation of the national computer archive of public works (AINOP) as established by Italian Law 130/2018 (so-called Genoa Decree). The ministerial decree defines the timing and phases with which the sharing of data and information is to begin, creating a census of Public Works with the aim of ensuring constant monitoring of the state and the degree of efficiency, as well as facilitating the process of planning and financing upgrading and maintenance projects. Moreover, a permanent technical roundtable was established at MIT to coordinate the process and the way in which the AINOP is updated. Its members must be appointed within 60 days of the decree coming into force. The organisation and operation of the roundtable will be defined within 30 days of its establishment by a specific provision.

Finally, again on the subject of infrastructure, it should be noted that the Ministry of Infrastructure and Transport announced through a bulletin that it established a technical-political roundtable with the Regions, ANCI and UPI, coordinated by the Honourable Daga, which met for the first time in February. The roundtable aims to make the best use of funds to mitigate droughts and to create greater synergy between the projects involving large reservoirs and related adduction and derivation works and those relating to aqueducts. In particular, its purpose is to carry out a survey of the resources available for interventions on reservoirs and aqueducts and discuss with local and regional authorities the criteria for the allocation of funds and the monitoring of the guarantee fund for water works.

With specific regard to the sewer-purification sector and in particular the problems related to compliance with EU regulations, with Italian Law no. 55 of 14 June 2019, published in the Official Gazette of the General Series no. 140 of 17 June 2019, the so-called Re-Open the Building Sites Decree was converted (Decree Law no. 32 of 18 April 2019 "Urgent provisions for the relaunch of the public contracts sector, for the acceleration of infrastructural projects, urban regeneration and reconstruction following seismic events"). In addition to establishing the partial suspension of the Procurement Code until 31 December 2020 and the postponement of the obligation to tender for concessions, the measure introduced new rules on End of Waste, and, with specific reference to the integrated water service, envisaged the extension of the powers of the single extraordinary commissioner for purification, established by article 2, paragraph 1, of Decree Law no. 243/2016, which are extended to all infringement procedures related to the violation of the relevant Community provisions and in particular to procedures no. 2014/2059 and 2017/2181. The measure also ordered the termination – within 60 days of the date of entry into force of the converted Decree Law – of the extraordinary commissioners appointed in accordance with article 7, paragraph 7 of Italian Decree Law no. 133/2014 and the taking over by the Single Commissioner in all legal relations; a decree of the Italian President of the Council of Ministers – on the proposal of the MATTM – is also expected to be issued, which will identify the projects for which the Single Commissioner will assume the task of implementing entity, as well as the financial resources necessary to ensure compliance with the judgements of the European Union Court of Justice

in cases C-565/10 and C-85/13. Under the same Prime Ministerial Decree, the powers of the Single Commissioner may also be extended to further agglomerations subject to infringement proceedings. It should also be noted that Italian Law no. 117/2019 "Delegation to the Government for the transposition of European directives and the implementation of other acts of the European Union – European Delegation Law 2018" (published in Official Gazette no. 245 of 18 October 2019), in implementation of EU Directive 2018/850, calls for the revision of the criteria for the acceptance of waste in landfills and the adoption of new organic regulations on the use of sludge, also amending the provisions of Italian Legislative Decree no. 9/1992 in order to ensure the achievement of the landfill objectives set by European legislation. Among the aims, the adaptation of the regulations to new technical-scientific knowledge on pollutants, the promotion of innovation, with a focus on the recovery of nutrients and in particular phosphorus, the guarantee of the management and use of sludge in conditions safe for man and the environment. Specific regional sewerage sludge management plans will be drawn up as part of the regional special waste management plans, aimed at closing the sludge cycle in accordance with the principles of proximity and self-sufficiency.

With regard to the protection of users and in particular fragile users, a number of significant provisions were issued by the so-called fiscal decree and the 2020 Budget Law.

In December 2019, with Italian Law no. 157/2019 (so called Fiscal Decree) "Urgent provisions on tax matters and for non-deferrable needs", published in Official Gazette no. 301 of 24 December 2019, important new provisions were issued in relation to the social water bonus, extending it to the beneficiaries of universal basic income and pensions and the application also to charges relating to sewerage and purification services. The ARERA measure regulating the matter was issued at the beginning of 2020. Moreover, from 1 January 2021 the automatic recognition of the social water bonus is envisaged for all persons with ISEE within the established limits.

Finally, the 2020 Budget Law (Italian Law 160/2019 in Ordinary Supplement no. 45/L to Official Gazette of 30 December 2019) contains some significant measures for the IWS, in paragraphs 291, 292, 293 and 295 of article 1. In fact, a notice (to be sent by registered letter with return receipt) of not less than 40 days is envisaged for communications contesting any non-payment and communicating the suspension of service in the event of failure to pay; a penalty is also introduced equal to 10% of the amount contested and not due and in any case not less than € 100 in the case of debit invoices for which the relevant authority has ascertained or duly documented the illegality of the operator's conduct. Finally, paragraph 5.1 of Italian Law no. 207/2017 was repealed, which envisaged the non-applicability of the two-year limitation period in the event of failure or erroneous collection of consumption data resulting from ascertained liability of the user. Assessments are currently under way regarding the impact of the introduction of these measures, as well as the interaction with the regulatory framework currently in force for the water sector. Developments are also expected related to the conversion of Italian Legislative Decree 162/2019 "Urgent provisions regarding the extension of legislative deadlines, the organisation of public administrations and technological innovation" (so-called 1000 Postponements), during the debate of which several amendments were presented on the subject.

On the other hand, with regard to the legislation in progress, the most important measure is the bill "Provisions on public and participatory management of the integrated water cycle" (Daga bill – AC 52), discussed together with the bill "Principles for the protection, governance and public management of water" (Braga bill – AC 773). The text is currently being examined by the parliament's Environment Committee. A technical report has been expected by the

government since March 2019. During the examination by the committee, hearings were held with the various stakeholders, including several companies in the sector (including Acea and Utilitalia, the federation that brings together companies operating in the public water, environment, electricity and gas services) as well as ARERA, which had an opportunity to express their views on the matter. In particular, at the hearing of 9 January 2019, ARERA presented a brief (1/2019/I/IDR of 8 January 2019) in which it shared, first of all, the explicit recognition of the right to quality drinking water. With regard to the financing of investments, it had a positive opinion of the use of public resources for the financing of strategic infrastructure for the territory, in cases where the tariff is objectively inadequate to guarantee coverage. With regard to the measure, it noted that it was important to prepare an effective strategy for widespread improvement of the measure that takes into account the other needs in the sector. ARERA also pointed out the need for a further strengthening of the protections for the end user and placed particular emphasis on the following issues: users in a documented state of economic distress, reform of fees to end users, introduction of measures to strengthen accountability. In terms of governance, the Authority considered it a top priority that the regulatory functions be neutral and independent with respect to the conflicting interests of the sector, to gradually give extremely different geographical realities a common denominator.

ARERA WATER SERVICES ACTIVITIES

During the period covered by this report, ARERA continued in its activity of defining the regulatory framework by issuing several significant measures. In particular, the definition of the tariff methodology for the third regulatory period 2020-2023 (MTI-3) was initiated and completed, and substantial additions were introduced to the regulation of contractual quality.

Particularly significant was also the recent issue – in July 2019, at the end of a long consultation process – of the new rules for the management of delinquency in the integrated water service in Italy with the publication of the related integrated text (REMSI). Finally, it is worth mentioning the definition of the Strategic Framework for the three-year period 2019-2021, a document in which the Authority outlines the strategic objectives and the main lines of intervention for the period in light of the evolution of the national and European sector context.

With regard to the promotion of infrastructure in the water sector, the first list of works for the aqueduct section of the National Plan for water sector projects has been drafted, for which the conditions, terms and methods for the disbursement of resources have been defined by a specific measure and financing has finally been initiated.

With regard to the guarantee fund for waterworks, the methods for its funding and management are currently being consulted.

Finally, it is worth mentioning the opening of a fact-finding survey on how sewerage sludge is managed and exploited.

The most important measures issued by ARERA during 2019 are briefly analysed below.

TARIFF METHOD – THIRD REGULATORY PERIOD

Resolution 580/2019/R/IDR “Approval of the water tariff method for the third regulatory period MTI-3”.

The measure, which is highly articulated due to the extent and complexity of the issues dealt with, closes the procedure initiated by Resolution no. 34/2019/R/IDR, which also envisaged the meeting with the procedure relating to the monitoring of the implementation of planned investments, opened by Resolution no. 518/2018/R/IDR.

During the last quarter of 2019 two complex consultation documents (DCO 402/2019/R/IDR and 480/2019/R/IDR) were issued and dealt with, in which ARERA explained its orientations and involved stakeholders.

With respect to the previous MTI-2, the new method outlined at the end of the year essentially confirms the configuration, general mechanism and methods for approving tariffs for the four-year period 2020-2023, but with the introduction of several significant changes. First of all, the operator’s positioning criterion in the matrix of regulatory schemes was changed, no longer depending on the interaction between average operating cost and the ratio of investment needs to RAB, but on the operator’s Guaranteed Revenue Constraint (GRC) and investment needs to RAB. The new rule involves a reduction in the maximum annual tariff increase in all the schemes of the matrix with variations from a minimum of 5.2% (scheme 1) to a maximum of 8.5% (scheme VI), while in the four-year period 2016-2019 the range of variation was from 6% to 9%. Acea Ato 2 and Acea Ato 5 are in regulatory scheme V, with a maximum annual limit of 6.2%.

The application of the new parameters introduced for the calculation of financial and fiscal charges leads to a reduction of the WACC from 5.31% in MTI-2 to 5.24% in MTI-3, while the introduction of a differentiation of financial charges on “ordinary” assets under construction (i.e. not related to strategic projects) leads to the application of a lower and decreasing WACC during the 4 years of tariff recognition. Strategic Works, i.e. infrastructural projects whose completion – considered as a priority by the government – structurally requires multi-year deadlines due to their technical complexity, are included in the Strategic Works Plan (SWP), which is an integral part of the Works Programme. With regard to assets, starting in 2020 the new method revises the classification of useful life (confirming the use of financial depreciation) in order to bring infrastructure back to the relevant IWS activity and identify a correspondence between the category of assets and the quality objectives.

Another important element is the introduction of an operating cost efficiency mechanism through the use of an econometric model for estimating the total cost boundary, determined according to the output level and the prices of inputs. The mechanism rewards those operators that achieve lower operating costs per capita than those estimated by the model, while in the opposite case the deducted portion of the margin between recognised endogenous operating costs and efficient operating cost will feed into an allocative tool additional to the UI2 equalisation tariff component, designed to support the bonus for technical and commercial quality.

Also in terms of operating costs, MTI-3 reduces the parametric recognition of the cost per delinquency for operators in Central Italy (from 3.8% to 3%) and in Northern Italy (from 2.1% to 2%), recognises under certain conditions (first of all achievement of the M5 technical quality objective – sludge disposal in landfills) the extra cost for the disposal of sewerage sludge (in view of the difficulties encountered by operators since 2018) and envisages forms of promoting environmental sustainability through the promotion of measures like the containment of electricity consumption, the reduction of the use of plastic, the recovery of energy and material, the reuse of purified water for agricultural and industrial purposes. Finally, the new method offers tools and control phases aimed at verifying the actual implementation of the investments planned in the previous four-year period 2016-2019 in order to ensure the correct allocation in the regulatory schemes and the consistency between the priority objectives set for subsequent years and the economic-financial sustainability of the operation. In the case of underinvestment and failure to achieve technical or contractual quality objectives, additional forms of penalties are established.

The deadline for the submission of the tariff application by the AGB is 30 April 2020. The approval by ARERA is expected within the next 90 days, unless other information is necessary. The infra-period review is expected by the deadline of 30 April 2022.

We are waiting for the measure, soon to be issued, with which the Authority will define the procedures for the presentation of data, as well as the minimum contents and the procedures for drafting the acts that constitute the tariff proposal.

REGULATION OF CONTRACTUAL QUALITY

Resolution 547/2019/R/IDR “Updating of the current regulations on the regulation of the contractual quality of the integrated water service and provisions for the strengthening of safeguards for the benefit of end users in cases of invoicing of amounts relating to consumption dating back more than two years”.

Following the monitoring launched by ARERA with resolution 571/2018/R/IDR, aimed at verifying the correct application of the contractual quality regulation and the updating of the current regulations, in October 2019 a consultation on the subject was opened with DCO 422/2019/R/IDR, aimed at illustrating the main lines of action set out by the ARERA and collecting comments from interested parties.

The final measure includes the regulation of the contractual quality of the integrated water service, as defined by Resolution no. 655/2015/R/IDR (RQSII), in order to strengthen the protection of users’ interests and guarantee adequate levels of performance by operators. Moreover, in light of the provisions introduced by Italian Law no. 205/17, it introduces certain measures to strengthen protection for end users in cases of invoicing amounts for consumption dating back more than two years, with particular reference to the disclosure obligations placed on water service operators.

In summary, with the new provisions relating to contractual quality, an incentive mechanism was introduced similar to the one envisaged for the regulation of technical quality, based on the construction of 2 macro-indicators obtained from the 42 simple indicators already envisaged by Resolution 655/2015/R/IDR:

- MC1 “Initiation and termination of the contractual relationship” composed of simple indicators relating to estimates, the execution of connections and works and the activation and deactivation of services;
- MC2 “Management of the contractual relationship and accessibility to the service” composed of simple indicators relating to appointments, invoicing, meter and pressure level checks, responses to written requests and the management of contact points with users.

The macro-indicators are calculated as the average of the relevant simple indicators, weighted according to the number of services provided. Based on the initial performance levels related to each macro-indicator, three classes of annual targets are identified: Class A (maintaining the starting level), Class B (with improvement of 1%), Class C (with improvement of 3%). Rewards and penalties with respect to the objective set based on the starting level are determined through a multi-stage assessment broken down into base level and level of excellence.

Prizes and penalties will be quantified from 2022 onwards based on performance in each of the two previous years (just for the first year of the performance evaluation, 2020, the starting level is defined on the basis of the simple indicators recorded in 2018).

A further important addition to the previous regulatory framework in terms of contractual quality is the provision to extend the protections also to non-contractual entities that require the performance of services preparatory to the conclusion of the supply contract. If a contractual relationship is established for the supply of the water service, the operator is required to provide automatic compensation under Title X of the RQSII in the first subsequent invoice. A minimum billing frequency of not less than one month is then introduced, and details are provided on the standards for ser-

vices whose execution time depends on the work of third parties (reading meters in joint consultation with chambers of commerce, in accordance with Italian Ministerial Decree 93/2017, and complex works for which works to be carried out by the user are necessary or which deeds like concessions, authorisations or easements must be requested for).

With regard to the methods of data registration and disclosure, the obligation to disclose data to the Authority was also extended to operators serving up to 50,000 inhabitants (who in any case already had to keep records of services). The annual deadline for the disclosure of contractual quality data to the Authority was also moved up to 15 March.

The above provisions apply from 1 January 2020, with the specification that in any case by 1 July 2020 operators will be required to adjust the methods of recording information and data concerning services subject to specific and general levels of contractual quality. In any case, it is possible to submit a reasoned request for a waiver in cases of ongoing management aggregation processes and for operators in territories affected by earthquakes.

Attachment B of Resolution no. 547/2019 contains provisions on the subject of disclosure obligations in the event of a two-year limitation period as per the amendments introduced by the Italian 2018 Budget Law no. 205/2017. The operator’s entitlement to the fee owed by domestic users, micro-enterprises and professionals for the supply of water is reduced from five to two years for invoices due after 1 January 2020 and only if the failure or erroneous collection of consumption data does not result from the user’s proven responsibility. ARERA defines the disclosure obligations towards the user, specifying the information to be provided in the bill for both the operator’s responsibility and the end user’s responsibility.

ARREARS

Resolution 311/2019/R/IDR “Regulation of arrears in the Integrated Water Service”.

With the enactment of the final measure, including the attached REMSI (Regulation of arrears in the integrated water service), the directives for the management of arrears in the integrated water service in the national territory were adopted, thus concluding – after broad consultation (DCO 603/2017/R/IDR, 80/2018/R/IDR and 158/2019/R/IDR) – the process started in November 2016 with the opening of the procedure (Resolution 638/2016/R/IDR).

Specifically, Resolution no. 311/2019/R/IDR, which is expected to be applied from 1 January 2020:

- defines the end users that cannot be disconnected, identified as the beneficiaries of the social water bonus and the users for “Public use that cannot be disconnected” referred to in Resolution 665/2017/R/IDR (TICSI);
- regulates the formal notice procedure, requiring the operator to send an amicable payment reminder prior to the formal notice; defining the timing of the process, including the final payment deadline;
- regulates the procedures for restriction, suspension and deactivation and supply, defining their conditions, methods and timing. In particular, for resident domestic users, a phase of restriction of the supply with guarantee of the minimum vital quantity (50 litres/inhabitant/day) is foreseen before suspension. For this type of user, deactivation cannot be carried out except in the event of tampering with seals/flow limiters and failure to comply with the obligations for the recovery of past arrears in the previous 24 months;
- lays down specific rules for condominium accounts, providing that no restriction/suspension/deactivation may be made against partial payments, provided that they are made in a single instalment within the deadline specified in the formal notice and equal

to at least half of the amount due. If the condominium does not pay the balance within 6 months of the partial payment, the operator may restrict, suspend or deactivate the supply;

- sets out the situations in which the operator is required to ensure the payment in instalments of the amount in arrears and the arrangements for such payment;
- finally, it provides for automatic compensation in the event of non-compliance with the requirements.

NATIONAL PLAN OF PROJECTS IN THE WATER SECTOR

Aqueducts Section

Resolution 51/2019/R/IDR “Initiation of the proceeding concerning the necessary and urgent interventions for the water sector for the definition of the “Aqueducts” section of the National Plan, referred to in article 1, paragraph 516 of Italian Law 205/2017”.

The measure supplements and renews the procedure set out in Resolution no. 25/2018/R/IDR on the necessary and urgent measures for the water sector for the purposes of defining the “aqueducts” section of the National Plan (referred to in article 1, paragraph 516 of Italian Law no. 205/17), providing that it take due account of the recent provisions introduced by article 1, paragraph 153-155 of Italian Law no. 145/18 (Italian Budget Law 2019).

In particular, ARERA considers it necessary to:

- without prejudice to the investigative activities already carried out, define the most suitable methods for identifying synergies between the interventions to be included in the various parts of the National Plan, in particular continuing the coordination between the administrations involved to adopt consistent selection criteria based on the guarantees regarding the effectiveness and speed of execution of the interventions to be financed (paragraph 153, art. 1 of Italian Law 145/18);
- conduct further assessments in light of the renewed and strengthened focus that laws have placed on containing water loss (paragraph 153, art. 1 of Italian Law 145/18);
- supplement the activities aimed at defining the “aqueducts” section of the National Plan with sensitivity analyses regarding tariffs in light of the completion of operations for the planned financing instruments;
- taking into account the characteristics of the potential beneficiaries of public resources, assess the most suitable measures to ensure the management capacity of the operator to whom the management of the works financed by the National Plan will be entrusted, as a prerequisite for an effective use of the resources granted.

Resolution 252/2019/I/IDR “First list of the necessary and urgent interventions for the water sector for the definition of the ‘aqueducts’ section of the National Plan, referred to in article 1, paragraph 516 of Italian Law 205/2017”.

For the purposes of defining a first excerpt of the “aqueducts” section of the National Plan referred to in article 1, paragraph 516 of Italian Law 205/2017, as subsequently supplemented by the provisions of Italian Law 145/2018, ARERA provided an initial cluster of projects that updated and integrated the list presented in Reports 268/2018/I/IDR and 538/2018/I/IDR. These projects were identified by the competent territorial entities as necessary and urgent for the achievement of the priority objectives of achieving adequate levels of technical quality, recovery and expansion of the water tightness and transport of water resources, dissemination of tools aimed at saving water in agricultural, industrial and civil uses. The list contains 26 projects for a total of € 80 million over the two-year period 2019-2020. Projects not selected for this first

cluster, other projects that will emerge as priorities, as well as the continuation of the activities of the selected projects may be evaluated both for the inclusion in subsequent clusters of the “aqueducts” section of the National Plan and for the use of the Water Works Guarantee Fund referred to in article 58 of Italian Law no. 221 of 28 December 2015.

As far as the Acea Group is concerned, the only project in the list (and already included in previous versions) is that of Acea Ato 5 for the replacement of the adductive water pipeline – Supino and Morolo for a total in the two-year period of 4,400,000.

Resolution 425/2019/R/IDR “Regulation of the procedures for the disbursement of resources for the completion of the projects contained in Annex 1 to the Decree of the President of the Council of Ministers of 1 August 2019, concerning the ‘adoption of the first excerpt of the national plan of projects in the water sector – aqueducts section’, adopted pursuant to article 1, paragraph 516 of Italian Law 205/2017”.

With the measure ARERA regulates the conditions, terms and methods of disbursement of the resources allocated for the completion of the projects referred to in the first excerpt of the National Plan for projects in the water sector – aqueducts section.

The resolution provides for the establishment at CSEA of the Account for the financing of the projects of the National Plan, aqueducts section, with the aim of supporting the planning and completion of the projects. The subsequent CSEA Circular 37/2019/IDR provides the reference body and the implementing entity with the operating instructions and the related forms for the disbursement of the advance payment for the projects.

Resolution 512/2019/R/IDR “Start of the disbursement of resources for the completion of the projects referred to in Annex 1 of Italian Prime Ministerial Decree dated 1 August 2019 concerning “Adoption of the first excerpt of the National Plan of projects in the water sector – aqueducts section”.

The resolution authorises CSEA to pay the first instalment of financing (advance payment of 40% of the total) for the construction of the works listed in the measure itself (23 out of the 26 works included in the first part of the plan). For the remaining works in the Plan excerpt the authorisation for the payment of the first instalment is postponed to the verification of the complete fulfilment of the obligations envisaged. The total amount to be disbursed as the first tranche is € 14.5 million for 18 operators, including Acea Ato 5 for an amount of € 880,000.

Reservoir Section

Opinion 160/2019/I/IDR “Opinion to the Minister of Infrastructure and Transport on the proposed decree of the President of the Council of Ministers for the adoption of the first section of the National Plan of interventions in the water sector, relating to the ‘reservoirs’ section, referred to in article 1, paragraph 516, of Italian Law 205/2017”.

With this measure, pursuant to art. 1, paragraph 516 of Italian Law 205/17, ARERA offered a favourable opinion with comments on the proposal for a decree sent by the MIT, pointing out, however, that the proposal does not refer to the provision of Italian Law 205/17 for which the AGBs (and the other parties responsible for carrying out the measures), within 60 days of the date of entry into force of the decree itself, adjust their planning and programming in line with the measures envisaged in the National Plan, as well as the fact that the agreements (referred to in the proposed decree) do not include – for critical cases in the planning and management of the integrated water service – specific conditions aimed at balancing the need to quickly start financing the projects of the National Plan with that of ensuring their effective and sustainable implementation.

Water works guarantee fund

Resolution 353/2019/R/IDR “Initiation of proceedings to define the procedures for the supply and management of the Guarantee Fund for water works, referred to in article 58 of Italian Law 221/2015, consistent with the criteria set out in the Italian Prime Ministerial Decree of 30 May 2019”.

ARERA started to define the procedures for the supply and management of the Guarantee Fund for water works, referred to in article 58 of Italian Law 221/15 in line with the criteria set out in the Italian Prime Ministerial Decree of 30 May 2019, envisaging in a first phase:

- the identification of the needs related to the new project financing operations;
- the quantification of the tariff equalisation component, to be established under MTI-3, intended to feed into the fund;
- the definition of the general elements necessary to govern the way the fund is managed;
- the setting up of the Risk Assessment Committee at the CSEA, which is responsible for giving its opinion on the Fund’s operating procedures and on the proposals for projects to be covered by the guarantee.

At a later stage, the procedures and terms for issuing guarantees, assessing individual applications and monitoring and verifying the development of the projects eligible for guarantees will have to be defined.

DCO 368/2019/R/IDR “Definition of the arrangements for the supply and management of the Guarantee Fund for water works. General framework and first lines of action”.

In the ARERA measure, in addition to illustrating the recognition of the needs connected to the new financing operations of the projects included in the categories listed in the Prime Ministerial Decree, it proposes uses and sources of financing of the Fund, defining the amount of the guarantees and the quantification of the tariff equalisation component aimed at financing it, foreseeing its establishment within the MTI-3. At first, the guarantees will be granted to cover needs requiring an effective increase in spending capacity compared to what had been planned. The amount of the guarantees given (of separate amounts depending on whether or not the beneficiary is subject to the regulation of ARERA) will depend on the rate of completion of the planned measures, the degree of capitalisation of the subject, the cost of recourse to debt, the operator’s local institutional structure and the strategic importance of the operation to be financed. ARERA foresees the calculation of a cost for the guarantee that the requesting operator will pay to CSEA and that, for regulated operators, will be included in the tariff. As already mentioned above, in order to pay into the Fund and cover its operating costs, Resolution 580/19 (MTI-3) established an equalisation component equal to 0.4 cents/€ per cubic metre. The end of the measure includes a number of procedural elements relating to the subjective requirements of applicants for eligibility for the Fund’s guarantees, the financial transactions accepted as collateral, the cases of termination of the credit line for which payment of the recognised take-over value must be provided and the related settlement procedures and the procedures for applying for the guarantee. Finally, the measure includes a schematic representation of the Fund’s operation and the organisational relations between ARERA and CSEA.

2019-2021 strategic framework

Resolution 242/2019/A “ARERA 2019-2021 strategic framework”.

The measure adopts the Authority’s Strategic Framework for the three-year period 2019-2021, taking into account the results of the consultation, including the information that emerged from the periodic hearings of 8-9 May 2019.

The document’s inspiring principles include: a more central role for the consumer, the use of innovation in technology and processes,

a particular attention to uniform development in the different areas of the country, to which principles of asymmetric regulation will be applied in order to make the level of public services more uniform. With specific reference to the integrated water service, the main changes in the Strategic Objectives (SOs) are the following:

- SO 2 (“Consumer Awareness and Transparency for a better evaluation of the service”): periodic publication of performance indicators for each operator accompanied by some useful information to describe the management of reference, with the aim of monitoring and improving the available information and users’ willingness to pay, also with benefits in terms of containment of arrears;
- SO 4 (“Supporting innovation through experimentation and research”): extension to the IWS of the objective of developing innovative projects to strengthen metering, assessing its economic and environmental impacts;
- SO 7 (“Expansion and updating of uniform rules on the national territory for the management of relations between operators and users in the water sector”): in-depth study of the subject of plant transformation aimed at installing consumption metering devices for each individual building unit;
- SO 10 (“Effective planning and implementation of investments for a quality water service”): in the field of technical quality, rather than envisaging the extension of the initial set of indicators ARERA intends to “complete – also based on the results achieved in the first application phase – the set of indicators introduced”;
- SO 11 (“Cost-efficient cost recognition in the integrated water service”): introduction of the reference to ARERA’s action to promote, among other things, the implementation of projects aiming at the recovery of energy and matter from sewerage sludge.

Apartment buildings – Study of meter reading and billing

Resolution 295/2019/E/IDR “Launch of a fact-finding survey of the performance of integrated water service operators with respect to meter reading and billing for individual units in apartment buildings”.

Expected to be completed by 31 March 2020, pending the definition of a framework of common rules aimed at aggregate users the procedure is intended to pursue “the aim of ensuring the effective application of the provisions introduced by the regulation for all end consumers (including those underlying aggregate users)”, evaluating the activities already carried out by operators and then “reconsider the general scope of services and related regulatory requirements”. From the first information acquired by ARERA (also through reports received), in cases of aggregate accounts having divisional meters there are different situations in the territory:

- in some areas the internal metering of apartment buildings is carried out by accounting companies which, delegated by the same apartment complexes, perform the reading of the divisional meters, the distribution of the bill, the collection, the reminder of users in arrears and the payment of the bill to the operator;
- in other areas, the service of reading, distribution, billing and related collection for divisional meters inside the apartments of each building is carried out directly by the operator or administrator of the complex;
- finally, in some cases, innovative methods of communication have been adopted, including using applications on mobile devices capable of informing and raising awareness of consumption among the individual owners of the units in the complex.

ARERA intends to carry out its own in-depth analysis starting from the information communicated by the operators with specific regard to “other water activities” (referring to the “construction and/or maintenance of the systems downstream of the meters, the reading of divisional meters inside the apartment complexes and billing”).

Treatment sludge

Resolution 20/2019/R/IDR “Launch of a fact-finding study of the methods for managing and exploiting treatment sludge”.

A fact-finding study was launched into the methods for recovering and disposing of sewage sludge, providing for specific in-depth actions aimed at encouraging the adoption of further measures to accompany the transition to a circular economy in the wastewater treatment sector. The purpose of the survey is to collect data and information on the technologies currently available for the containment/use of the total quantity of sludge and on its transport, recovery and disposal costs. In addition, further details are planned regarding the third parties involved in the management of the sludge until its final destination, as well as any extra-regional or international movements. The study will end on 31 December 2019. Resolution no. 580/19 (MTI-3) introduced a new component aimed at recognising the higher cost of sludge disposal, with an exemption equal to 2% of the allowed cost.

Memorandum 179/2019/I/com “Hearing of the Regulation Authority for Energy Networks and the Environment on the draft law “Delegation of powers to the government for the transposition of European directives and the implementation of other acts of the European Union – European delegation law 2018 (AS 944)”.

During the hearing held on 7 May 2019 before the 14th Commission (EU Policies) that examined the Draft European Delegation Law 2018 (for the delegation to the government of the transposition of 24 European directives and other EU acts), ARERA reiterated its willingness to be involved in matters that fall within its area of responsibility. In particular, ARERA wishes to be informed both of the planned reform of the system of criteria for the acceptance of waste in landfills and the new organic rules on the use of sludge, which will amend the provisions of Italian Legislative Decree no. 99 of 27 January 1992 (use of purification sludge in agriculture).

For both regulations, this is the implementation of Directive 2018/850, which is part of the so-called Package of measures on the circular economy. In this regard, ARERA agrees with the indications provided by the draft law, specifying:

- that it recently launched a fact-finding exercise on the subject with Resolution 20/2019/R/IDR, with a view to promoting the dissemination of innovative technologies and the transition to a circular economy in the wastewater treatment sector;
- with the introduction of Technical Quality regulations (Resolution 917/2019/R/IDR), to have introduced a specific indicator (M5 - Disposal of sludge in landfills) aimed at minimising the environmental impact deriving from the conveyance of wastewater.

Based on these elements, ARERA suggests considering its involvement, both in the review of the system of criteria for the acceptance of waste at landfills and in the review of the rules set out in Italian Legislative Decree 99/1992.

Social water bonus

Resolution no. 165/2019/R/COM “Amendments to the integrated text of the implementing rules for compensation schemes for the costs incurred by disadvantaged domestic customers for the supply of electricity and natural gas (TIBEG) and the integrated text of the implementing rules for the social water bonus for the supply of water to economically disadvantaged domestic customers (TIBSI) in accordance with article 5, paragraph 7 of Italian Decree Law no. 4 of 28 January 2019, converted with amendments into Italian Law no. 26 of 28 March 2019”.

In accordance with article 5, paragraph 7 of Italian Decree Law 4/19 containing urgent provisions on universal basic income and pensions,

ARERA has supplemented/amended the regulations on bonuses for services regulated in compliance with the new regulations. In particular, in the TIBSI the references to “Retail Card” and “Rel Card” have been removed, while it is established that beneficiaries of universal basic income and pensions can apply for bonuses from 20 May 2019.

As a result, appropriate changes were made to the application/renewal forms (Determination 1/2019 – DACU). Moreover, following application problems that emerged during the initial implementation phase, the detailed procedures for the validation of social water bonus requests and the procedures for the recognition of the one-off quota were further developed (Determination 4/2019 – DACU).

Report 280/2019/I/COM “Report to parliament and government on social bonuses for electricity, gas and water”.

With this document, ARERA submitted to parliament and the government some considerations regarding social bonuses for the supply of electricity, natural gas and water, proposing a procedure to guarantee their automatic use to all potential beneficiaries.

In fact, the data show that despite the efforts made to disseminate knowledge of these programmes, their use is not particularly widespread among those entitled to them. ARERA also called for the extension of the social water bonus to the recipients of universal basic income and its reparametrisation, so as to include also the expenses related to sewerage and purification services.

Resolution 499/2019/R/COM “Update of the ISEE threshold value for qualifying for social bonuses from 1 January 2020, pursuant to the decree of the Italian Minister of Economic Development of 29 December 2016”.

In accordance with the provisions issued by the decree of the Minister of Economic Development of 29 December 2016, the measure updates the value of the ISEE threshold for qualifying for social bonuses from € 8,107.50 to € 8,265. The update will be effective from 1 January 2020. Subsequent updates will take place every three years. ARERA estimates that with this adjustment the social water, electricity and gas bonus will be extended to 200,000 new families.

Consumer protection

Resolution 142/2019/E/IDR “Implementation in the water sector of the protection system for complaints and disputes of customers and end users of regulated sectors”.

With this measure, ARERA implemented a gradual transition to the fully operational system by means of further updates to the transitional rules (Resolution 55/2018), establishing:

- for operators serving at least 300,000 residents, the obligation to participate from 1 July 2019 in the procedures voluntarily filed by end users before the Conciliation Service;
- for end users served by the operators referred to in the previous point the exclusivity of the Conciliation Service, as a voluntary second-level instrument of the protection system. Only disputes regarding the social water bonus can be escalated to the Branch, without prejudice to any compensation.

Annex A to the resolution lists the 44 operators required to participate in the Conciliation Service (for the Acea Group: Acea Ato 2, Acea Ato 5, AdF, Publiacqua, Acque, Gori and Umbra Acque). The list may be progressively amended in the event of changes in the population served or if there are other operators voluntarily entering into a participatory commitment of at least two years' duration. Operators that are obliged to (or that have made a voluntary commitment) must clearly specify in a manner that is easily understood on their website, in new contracts and in responses that do not resolve the complaints of an issue raised by the user at least:

- a. how to initiate the Authority's Conciliation Service;
- b. the methods for engaging any other out-of-court dispute resolution bodies they agree to participate in and whose procedure is free of charge.

ARERA confirms that conciliation in the IWS is not yet a procedural condition for access to ordinary justice by postponing the deadline to an undetermined date. The ability to choose either the Conciliation Service or another conciliation procedure for the same dispute is confirmed.

Inspections

Resolution 253/2019/S/IDR “Imposition of administrative fines for violations of the integrated water service tariff regulation”.

With the measure in question, ARERA imposed a fine of € 955,000 on Acea Ato 5 – Frosinone.

The sanctioning procedure was initiated by DSAI 42/2018 following an inspection in November 2017 with reference to possible violations of the provisions relating to the definition of the IWS tariffs. The main violation by the company refers to a misinterpretation of the regulations on tax deductibility, which led the company not to include among the items adjusting production costs (in particular, among the provisions in excess of the application of tax regulations, which are not deductible for tax purposes), the allocation to the “provision for risks and charges” recorded in the financial statements in 2011, thus overestimating the improvable operating costs recognisable in tariffs for the years 2012-2017.

On 16 October 2019, the Company paid the entire penalty ascribed to it and in any case corrected the error in the 2018-2019 tariff revision process, showing that it incurred efficient operating costs that were even higher than those recognised in the tariff prior to the application of the limitations. The Company filed an appeal against the measure in October 2019.

Tariff framework and document updates for Acea Ato 2 Lazio Central-Rome and Acea Ato 5 – Southern Lazio – Frosinone Acea Ato 2

ARERA approved the tariff proposal valid for the year 2019 with resolution 572/2018/R/IDR.

On 9 January 2019, after having submitted to the OTS on 13 November 2018 a request to update the tariff structure as envisaged by ARERA Resolution 665/2017, Acea Ato 2 asked ARERA to instruct the Ato 2 Conference of Mayors to comply with the adoption of the new tariff structure not approved by the Conference of Mayors (of 15 October and 13 December 2018).

Pending the adoption of the new tariff structure, with effect from 1 January 2019 Acea Ato 2 is applying the tariff increase of 5.96%, as approved by ARERA with resolution 674/2016, confirmed by resolution 572/2018.

Moreover, note the approval of the Implementation Regulations for the 2019 supplementary water bonus of Ato 2 Central Lazio – Rome by resolution no. 2-19 of the Conference of Mayors of 15 April 2019”. Those entitled are direct users (holders of a resident household account) and indirect users (household users in an apartment complex) who must meet certain requirements.

Under their own responsibility and based on specific certification by the relevant offices, the Municipal Administrations have the power to authorise the supply for individual users in situations of proven particular economic/social hardship, increasing the ISEE threshold for admission for this specific case. With the new regulation, the amount of the “local” bonus, consisting of the payment of a one-off annual contribution recognised in the bill (in the case of indirect users in the apartment building utility bill), is calculated as the expenditure corresponding to the fixed and variable fees for water, sewerage and purification for a consumption of up to 40 cubic meters per year for each member of the household, for direct and indirect users with ISEE up to € 8,107.50 and 20 cubic metres per year for each member of the household for other eligible users. The bonus is valid for one year and is paid in a single pay-

ment, normally within 6 months from the date of submission of the application (which must be submitted by 31 December 2019).

With reference to the other significant elements that emerged at the OTA level, it should also be noted that at the Conference of Mayors held on 24 July 2019 the new Ato 2 Central Lazio – Rome user regulations were approved. In this document, ARERA provisions considered particularly relevant to the regulation of the IWS were incorporated, including those concerning technical quality, contractual quality, social water bonus and regulation of the measure. At the same Conference of Mayors, in agreement with the operator Acea Ato 2 the OTS was asked to update both the User Regulations and the Integrated Water Service Charter in order to bring the texts into line with the provisions contained in the very recent ARERA resolution no. 311/2019 on arrears.

Finally, with resolution no. 4/2019 approved by the Conference of Mayors at its meeting of 11 November 2019, the new tariff structure defined in application of ARERA resolution no. 665/2017/R/idr (TICSI) was approved. The application will start in March 2020.

Acea Ato 5

In implementation of the regulatory framework in force on 1 August 2018, the Conference of Mayors of Ato 5, by resolution no. 7, approved the approval of the tariff multiplier for the 2018 and 2019 years in the maximum amount provisionally envisaged by the tariff method of 8%, it being understood that with regard to the maximum theta values that determine tariff variations exceeding the limit provided for by the MTI-2 an investigation will be carried out by the ARERA.

With regard to sewerage and purification, it should be noted that a limited part of the territory is managed by the Industrial Development Consortium of Frosinone (ASI). Resolution no. 664/2015 imposes on the AATO the obligation to determine the fees for the performance of public utility services, including those relating to sewerage and purification. In particular, Annex A of the aforementioned Resolution defines the shared use (Common Carriage) of an infrastructure managed by a non-regulated entity other than the wholesaler to provide water and/or sewerage and purification services also to other types of non-member users. Where the wholesale supplier provides the service to the IWS Operator in the context of a Common Carriage activity, for the purpose of ensuring the supply the cost charged to the IWS Manager must be calculated on the basis of the marginal cost of the service provided, as set out in article 26.3 of the Resolution. For these reasons, the OTS has proposed a way of calculating the total costs for the provision of services by the ASI, attributable to each plant, as the sum of the variable direct costs, the fixed direct costs and the indirect costs of the plant itself. This method of calculation was approved during the meeting of 26 March 2018 by the Conference of Mayors with resolution no. 3/2018. The aforesaid costs will be accounted for by the Operator for the years 2018 and 2019 for an amount of € 1,466,000 and € 1,455,000 respectively, and were included in resolution no. 7 of the Conference of Mayors of 1 August 2018. By resolution no. 8 of 1 August 2018, the Conference of Mayors approved, pursuant to art. 3, paragraph 1 of ARERA Resolution no. 665/2017/r/idr of 28 September 2017, the new tariff structure (TICSI).

Update on appeals against the ARERA tariff regulation

In 2013 Acea Ato 2 filed an appeal against Resolution 585/2012 (MTT) and subsequent resolutions that amended and supplemented the contents (Resolutions 88/2013, 73/2013 and 459/2013). The appeal was partially upheld by the regional administrative court of Lombardy 2528/2014, against which both Acea Ato 2 and ARERA have appealed.

In the public hearing held on 29 September 2015, the suspension

of the pending judgement and the postponement of the decision to a later date following the outcome of the technical office consultancy arranged for the appeals proposed in 2014 by Codacons and the associations Acqua Bene Comune and Federconsumatori, considering the existence of a relationship of dependence-consequentiality between the decision of the appeal by ARERA and the decision on appeals promoted by the Consumer Associations, focusing in particular on the tariff component relating to the financial charges of the IWS manager, i.e. on the formulas and parameters implemented in art. 18 of Annex A of Resolution ARERA no. 585/2012 of 28 December 2012 (MTT), considered as a reintroduction of the criterion of “adequacy of invested capital” that had been eliminated by the outcome of the 2011 referendum.

The expert committee, appointed in October 2015, filed the report on 15 June 2016, concluding that the formulas and parameters aimed at calculating the interest rate of reference are considered reliable and reasonable in terms of national and international regulations and the component of risk coverage considered in the Resolution.

On 15 December 2016 the final hearing of the proceedings was held and on 26 May 2017 sentence no. 2481/2017 was published with which the Council of State, accepting the conclusions of the panel of experts, reaffirmed the full legitimacy of the tariff methodology adopted by ARERA. As a result, it rejected the Codacons and Acqua Bene Comune/Federconsumatori appeals mentioned above, with consequent confirmation of the contested sentences. The subsequent hearing before the Council of State was set for 20 September 2018.

Following the hearing, held as planned on the scheduled date, the Council postponed the discussion of the judgement, inviting the parties to file some briefs (to be presented by 19 December 2018) to make sure that there were no delays in resuming the appeal proceedings. At the hearing in question, however, the judge had not set the date of referral, which was instead established only in the early days of 2019. At the hearing held on 13 June 2019, part of the grounds for appeal were waived and the Council of State ordered the acquisition of the expert’s report submitted by the aforementioned parties (Codacons, Acqua Bene Comune, Federconsumatori) in order to submit it to the parties for oral arguments. The next hearing was set for 2 April 2020.

As of the date of this report, in addition to the appeal to the Council of State mentioned above, the other appeals filed by Acea Ato 2 before the Lombardy TAR against Resolution no. 643/2013/R/IDR (MTI) and Resolution no. 664/2015/R/IDR (MTI-2) are still pending. With regard to Resolution 643/2013, it should be noted that on 8 May 2014 additional grounds were presented for the cancellation of ARERA decisions no. 2 and no. 3. On 9 December 2014 additional grounds were presented for the cancellation of Resolution 463/2014/R/IDR. Pending the scheduling of the hearing, in April 2019 the notice of the hearing was received (the administrative process was cancelled due to the inactivity of the party). Following this communication, on 20 June 2019 Acea Ato 2 presented the request for the scheduling of the hearing together with the new power of attorney signed by the Chairman.

With regard to Resolution no. 664/2015, it should be noted that in February 2018 Acea Ato 2 extended the appeal originally proposed, submitting additional grounds of appeal against ARERA Resolution no. 918/2017/R/Idr (biennial update of the tariff arrangements for the integrated water service) and against Annex A of Resolution no. 664/2015, as amended by the aforementioned Resolution no. 918/2017. As of today we are waiting for the hearing on the merits to be scheduled.

It should be noted that Acea Ato 2 and Acea Ato 5 (as well as other Group companies) have appealed to the Regional Administrative Court against Resolution no. 311/2019/R/idr of 16 July 2019 concerning the “Regulation of arrears in the integrated water service”. A hearing on the merits is still pending.

With regard to Resolutions no. 547/2019 (RQSII Update) and no. 580/2019 (new MTI-3 tariff method), it should be noted that in February 2020 Acea Ato 2 and Acea Ato 5 (in addition to other Group companies) filed an appeal against these resolutions with the Lombardy Regional Administrative Court and we are waiting for the hearings on the merits to be scheduled.

The regulatory activity of the Lazio Region in terms of territorial planning and governance of the Integrated Water Service

With regard to the redefinition of the ATOBI (River Basin Optimal Territorial Areas) envisaged by Lazio Regional Decree 218/18, the Regional Councillor for Public Works, Land Protection and Mobility with note no. 048127 of 2 August 2018 had proposed the establishment of an Institutional Consultation Committee, composed among others of two parties identified by the Conference of Mayors and with the task of analysing the following aspects, to be ensured with the new structure: 1) the regulatory system; 2) environmental protection; 3) consumer protection; 4) the industrial model; and 5) inter-regional comparison.

At its meeting of 13 December 2018, by way of derogation from the aforementioned note the Conference of Mayors of the Ato 2 had asked the Councillor for Public Works and Territorial Protection, Mobility to accept a number of representatives of the Ato 2 equal to five or seven. With note prot. no. 29855 of 15 January 2019, communicated to the Mayors of Ato 2 with note prot. no. 192 of 17 January 2019, the same Councillor consented the appointment by Ato 2 of five representatives to the Institutional Consultation Committee. At the last Conference of Mayors on 11 November 2019, the fifth representative for the southeast quadrant was appointed. Previously the Conference of Mayors had identified the four representatives for the Rome, north, east and northeast quadrants.

With regard to the mandatory Agreement for the management of hydraulic interference of the Peschiera – Le Capore aqueduct system signed on 2 February 2018, during the Conference of Mayors of 15 April 2019 some amendments were approved which do not substantially change its contents but were necessary to fully implement the Agreement itself (payment terms, adjustment of reporting obligations, etc.). The agreement was signed on 14 May 2019 by representatives of the Ato 2 Central Lazio – Rome and Ato 3 Central Lazio – Rieti.

With regard to the derivation concessions, it is important to note that on 10 July 2019 representatives of the Lazio Region, Roma Capitale and Acea Ato 2 signed the specifications for the renewal of the Peschiera – Le Capore derivation concession, which feeds the Peschiera – Le Capore aqueduct, the capital’s main water supply infrastructure. The renewed concession, which will expire in September 2031, is the preparatory act for the construction of the new upper section of the Peschiera, necessary to safeguard and strengthen this work of great strategic importance, which the management of the Acea Group has decided to include in the 2019-2022 Business Plan. On the other hand, the appeal by Acea and Roma Capitale against the regional measure regulating the stop to use of water from Lake Bracciano was rejected as unfounded, with sentence 167/2019 issued on 6 September 2019 by the Superior Court of Public Waters. The applicants had in fact challenged the Regional Measure of December 2017, subsequent to the orders to stop the use, which reaffirmed the role of the lake as a “mere strategic water reserve”, making any future reactivation of use subject to authorisation by the Region, only in the event of an actual emergency and in compliance with ecological balances.

Also worthy of note is the establishment of a permanent technical roundtable on diffuse pollution coordinated by the Lazio Region and composed among others of Acea Ato 2, Arpa Lazio, ASL, Città Metropolitana di Roma Capitale, Pomezia and Istituto Superiore di Sanità. In 2016, in the Municipalities of Pomezia, Ardea and Ro-

ma Capitale, extensive groundwater contamination by chlorinated substances of non-natural origin was found in some drinking water supply wells. The water from these wells was promptly mixed and distributed to the population in full compliance with drinking water regulatory requirements. From the roundtable it was found that the contamination dates back about 15 years and it is presumed to have been caused by illegal disposal of chlorinated substances directly underground, with one or more sources of contamination, at the moment still unknown.

Moreover, from the same roundtable arose the need to start the preparation of a regional policy plan for the management of diffuse pollution, as established by art. 239, paragraph 3 of the Environmental Consolidation Act. This plan could be a useful and essential tool for the management of individual cases of diffuse pollution in the region, including through the definition of agreements with the competent territorial administrations and technical research and control bodies. With Council Resolution no. 130 of 12 March 2019, published in BURL no. 24 of 21 March 2019, the Lazio Region started the procedures for the preparation of the aforementioned Plan, establishing that it would be drawn up by the Regional Environmental Policies and Waste Cycle Directorate based on the guidelines contained in ISPRA document no. 146/2017 "Criteria for the preparation of diffuse pollution management plans".

Finally, note also the semi-annual report on the management of the IWS in the Lazio Region – H2 2018, prepared by the Regional Authority for the Integrated Water Service and published in BURL no. 11 of 5 February 2019. The document is divided into two parts. The first part deals with legislative and regulatory changes and the main relevant issues in H2 2018, while the second part provides a brief overview of the implementation of the IWS in the Lazio Region. At the date of this report, the Report for H1 2019 has not yet been published.

Events after the end of the 2019 financial year

Resolution 3/2020/R/IDR of 14 January 2020 "Amendments to the integrated text on the methods for applying the social water bonus for the supply of water to economically disadvantaged domestic users (TIBSI) in accordance with article 57-bis of Italian Decree Law no. 124 of 26 October 2019, converted with amendments by Italian Law no. 157 of 19 December 2019".

The measure amends and supplements the TIBSI – Integrated text on the methods for applying the social water bonus for the supply of water to economically disadvantaged domestic users (Resolution 897/2017/R/IDR) in accordance with article 57-bis of Italian Law no. 157 of 19 December 2019 (so-called tax decree).

The social water bonus will therefore also be granted to resident domestic users benefiting from Universal Basic Income or Pensions, in addition to those undergoing economic and social hardship for which it was already provided. It will also be applied to the variable share of sewerage and purification services, again with reference to the essential amount of water equal to 50 litres/inhabitant/day. As a result, the related UI3 tariff equalisation component, until now applied only to aqueduct volumes, will also be added to the aqueduct, sewerage and purification fees.

The new provisions will apply as of 1 January 2020 and those receiving universal basic income and pensions will be able to apply for admission from 1 February 2020.

Communication of 9 January 2020 "Integrated water service contract quality data".

With this press release, ARERA announced the publication of IWS operator performance data on its website, which the operators submitted for the first two years (2017 and 2018) of full application of the contractual quality regulation introduced by resolution 655/2015/R/IDR, consistent with the lines of action outlined in

its 2019-2021 Strategic Framework (resolution 242/2019/A). The publication of the data, aimed at strengthening consumer awareness of the services offered by the various operators, is based on 28 specific standards and 14 general standards of RQSII related to the following aspects: initiation and termination of the contractual relationship; management of the contractual relationship; billing; management of complaints and written requests; management of branches and telephone services.

Resolution 8/2020/R/IDR of 21 January 2020 "Definition of the arrangements for managing the Guarantee Fund for water works".

The measure regulates the management and use of the Water Works Guarantee Fund, in line with the Italian Prime Ministerial Decree of 30 May 2019, also taking into account the provisions of the MEF Ministerial Decree of 19 November 2019 concerning the State's guarantee of last resort. The requirements and conditions for gaining access to the guarantee and the related reporting, communication and monitoring obligations in connection with the issue of the guarantee are specified.

ELECTRICAL REGULATION

ARERA 2020-2022 Strategic Plan

With resolution 242/2019/A ARERA confirmed the strategic guidelines set out in consultation document 139/2019/A that will guide the current term of the Authority in the period 2019-2021 and outlines the strategic objectives and main lines of action.

Of particular interest for ARERA is: 1) the protection and awareness of the final customer, 2) the simplification of flows, 3) the orientation of developments and investments and 4) the innovation of the system to be achieved, including through experimental projects.

WACC rate of return

In 2019 the Authority updated the Integrated Text for the calculation and updating of the rate of return of investments in electricity and gas infrastructure for the period 2016-2021 (TIWACC).

Indeed, Resolution no. 570/2019/R/gas confirms the rate of return on gas distribution at 6.3% until 2021 and aligns the rate of gas metering with that of distribution in the years 2020-2021, reducing it by 0.5% (from 6.8% in 2019 to 6.3%).

ARERA ELECTRIC SERVICES: ENERGY INFRASTRUCTURE SEGMENT

Distribution and metering tariffs

In 2019, with Resolution 126/2019/R/eel – Launch of proceedings for the infra-period updating of the regulation of tariffs and the quality of electricity transmission, distribution and metering – and with several consultation documents and requests for information, ARERA updated the tariffs and the quality of electricity transmission, distribution and metering for the 2020-2023 regulatory period as defined by Resolution 568/2019/R/eel – Update of the tariff regulation of electricity transmission, distribution and metering for the 2020-2023 interim regulatory period.

For aspects relating to distribution and metering, it envisages:

- the recognition of operating costs in the 2020-2023 interim period, taking as a reference the operating costs for the year 2018 and establishing a symmetrical distribution between enterprise and users of the productivity recovery made in the first interim period (2016-2019);
- the activation of the sharing of net revenues from the use of the electric power infrastructure for purposes additional to electric power service;

- the establishment of a mechanism for the recognition of non-collectable receivables in the event of situations of exceptional arrears relating to the network tariff portion, but postpones its definition to a subsequent measure;
- the promotion of new aggregations between distribution companies;
- the possibility to achieve an increase in the rate of return on invested capital upon request and in a single solution as envisaged in the TIT of 2008-2011 and 2012-2015 (respectively, for the first period, in article 11 and, for the subsequent period, in article 12);
- the extension of the discounts provided for changes in power requested by domestic customers, and in 2020 the method of operation of an equalisation mechanism will be defined with regard to the discounts provided in the period 2016-2019;
- the gradual application over the period of the reactive energy fees;
- the extension of the current rules applied to vehicle recharging points open to the public until the end of the regulatory period;
- the remodulation of the calculation of interest on arrears due to CSEA.

Electricity distribution quality

With resolution 566/2019/R/eel – Approval of the Integrated text of the output-based regulation of electricity distribution and metering for the 2020-2023 interim period, issued following consultation no. 287/2019/R/eel, ARERA updated the TIQE for the 2020-2023 interim period.

Specifically, it envisages:

- the confirmation of the year 2023 for the achievement of continuity target levels, granting them only to the areas with the worst levels of continuity;
- the introduction of a special incentive scheme for critical territorial areas;
- the establishment of a mechanism of regulatory experiments to help improve the quality of service;
- the introduction of the recording of the number of meters replaced due to faulty display;
- from 2021 comparative publication also for voltage dips;
- limiting the premium on the individual project to improve the resilience of the networks to a maximum value equal to the cost of the project itself.

Smart meter 2G

With Resolution no. 306/2019/R/eel – Update for the three-year period 2020-2022 of the directives for the recognition of the costs of second-generation (2G) smart metering systems for the measurement of low-voltage electricity and commissioning provisions – ARERA updated for the three-year period 2020-22 the directives for the preparation of plans for the commissioning of second-generation (2G) smart metering systems and defined the cost recognition mechanisms and penalties for failure to implement the plan or for failure to meet expected performance levels.

Although with slight changes, the guidelines presented in DCO 100/2019/R/eel were confirmed, specifically:

- the major DSOs must start the installation phase by 2022 and finish by 2026 (at least 95%), with an intermediate step to be achieved by 2025 (90% of the planned installations);
- it confirms the general principle of not recognising costs associated with voluntary early disposal of 1G meters (so-called stranded meters), and to avoid “two-speed country risk” distribution companies that have yet to submit to the Authority their “2G smart metering system commissioning plan”. (PMS2) will have PCO2 calculated in such a way as to encourage the shortening of the current gap;
- starting from year 4, penalties are envisaged for failure to meet expected performance levels (only monitoring is carried out in

the first three years of PMS2), with annual and multi-annual ceilings on penalties.

In September 2019 areti sent the Authority a request for admission to the recognition of this type of investment and held a public session to present the plan in October 2019.

The plan envisages the replacement of 2.3 million meters by 2034 with a total expenditure of € 546 million, of which € 318.9 million in capital expenditures. The consultation phase of areti’s 2G smart meter plan envisaged in resolution 306 ended in November. The Authority is expected to publish the resolution approving the costs of areti’s 2G smart meter systems in 2020.

Resilience

With Resolution 668/2018/R/eel, following two consultations the Authority established initiatives on the resilience of networks. To this end, it has provided incentives for projects aimed at increasing the electricity distribution network’s resilience to weather conditions.

The areti company sent ARERA its 2019-2021 resilience plan in order to participate in the incentive mechanism of rewards and penalties as early as 2019. With resolution 534/19 ARERA resolved to include the projects in areti’s 2019-2021 Resilience Plans in the mechanism of premiums and/or penalties. About 230 projects are planned for a total of € 69 million in investments, mainly concentrated in 2020, designed to mitigate the risk of heat waves (most of the projects) and flooding (the balance).

Termination of transport contracts for user breach

With Resolution 300/2019/R/eel – Urgent amendments to the Authority’s Resolution 50/2018/R/eel concerning uncollected general charges – ARERA excluded from the quantification of the uncollected receivables (to be repaid by means of the current mechanism of Resolution 50/2018) any interest on arrears billed to transport users and recalculates it at the legal interest rate.

Subsequent Resolution 495/2019/R/eel – Provisions on the recognition of non-recoverable receivables relating to general system charges not collected by electricity distribution companies. Confirmation with additions to the Authority’s resolution 300/2019/R/eel – clarifies that the provision of Resolution 300/2019 refers to receivables arising after 11 July 2019 (date of entry into force of Resolution 300/2019/R/eel) and provides that the amounts relating to applications already submitted shall be settled by 31 March 2020.

CADE update

With two separate consultations, no. 412/2019/R/eel – Modification of the process of termination of dispatching and transport contracts and activation of services of last resort in the electricity sector – and no. 530/2019/R/eel – Updating of the standard network code for the electricity transport service – the Authority described its guidelines on reducing the exposure of distribution companies by acting on the timing of debt collection and contractual termination, thereby reducing the cost of the system of guarantees for transport users who are in compliance. In order to strengthen the system, it also proposed measures aimed at reinforcing guarantees, with particular attention to the rating and the insurance surety, as well as the clause verifying the regularity of payments and the procedures for verifying the adequacy of the amounts of guarantees given.

Other Deliberations of the Authority

Financial items relating to electricity destined for the states included in the Italian state (Vatican City)

With Resolution 58/2019/E/eel ARERA initiated a fact-finding investigation aimed at better understanding the methods used to manage the regulation of the financial items relating to electricity destined for countries within the Italian territory. At the conclusion of the first analyses, Resolution 491/2019/E/eel closed the preliminary investigation and launched consultation 492/2019/R/eel,

with which it defined the Authority's guidelines according to which electricity must be subject to the normal charging rules for the services concerned while it does not consider it appropriate to apply the general system charges.

Riser cables

With resolution 467/2019/R/eel, the Authority initiated an experimental regulation on the modernisation of buildings' old riser cables with effect from 1 January 2020 and for a duration of three years, aimed at:

- performing a national census of old riser cables;
- involving and encouraging the apartment complexes to modernise their riser cables;
- ensuring greater access to the electricity supply;
- gaining useful experience in order to define a subsequent stable regulatory framework.

Integration between electric vehicles and the electricity grid

With consultation 345/2019/R/eel, the Authority expressed its guidelines for the revision of the conditions for the provision of transmission, distribution and dispatching for electricity withdrawn and subsequently fed back into the grid by the storage systems, as well as electricity withdrawn from auxiliary generation services.

Automatic compensation to end customers for long-term interruptions

With Resolution no. 553/2019/R/eel – Closing of the consultation procedure initiated by Resolution no. 404/2019/R/eel for the execution of the Lombardy regional administrative court ruling no. 1901/2019 voiding the Authority's Resolution no. 127/2017/R/eel concerning the extension of automatic compensation to end customers, charged to network operators, for long-term interruptions – ARERA closed the consultation procedure initiated by Resolution no. 404/2019/R/eel for the execution of the Lombardy regional administrative court ruling no. 1901/2019 voiding the Authority's resolution 127/2017/R/eel concerning the extension of automatic compensation to end customers, at the expense of network operators, for long-term interruptions. The measure also takes into account the outcome of consultation 430/2019/R/eel and a request for information from distribution companies regarding automatic compensation to end customers for extended or prolonged interruptions for the period 1 October 2017-20 August 2019.

Losses from electricity distribution grids

With Resolution no. 559/2019/R/eel – Losses from electricity distribution grids: confirmation for the year 2020 of the conventional percentage loss factors and extension of the procedure initiated with Authority Resolution no. 677/2018/R/eel – the Authority confirmed for the year 2020 the values of the conventional percentage loss factors to be applied to withdrawals, injections and interconnections between grids.

ARERA ELECTRIC SERVICES: COMMERCIAL AND TRADING SEGMENT

2020 Budget Law

The 2020 Budget Law, no. 160 of 27 December 2019, abrogated paragraph 5 of art. 1 of the 2018 Budget Law envisaged the non-applicability of the two-year limitation period for consumption in the event of failure or erroneous collection of consumption data resulting from ascertained liability of the user.

The law also introduced additional rules for the benefit of the end customer. Indeed, utilities operators have an obligation:

- to communicate the suspension of supplies in the event of

failure to pay, with adequate notice of no less than forty days by registered letter with return receipt;

- to pay a penalty equal to 10% of the amount that is disputed and not due, in any case, for an amount of no less than € 100, in case of issuing debit bills for which the illegality of the conduct of the manager and the operator concerned is ascertained, for violations relating to the methods of detection of consumption, execution of adjustments or billing as well as for charges of unjustified expenses and costs for consumption, services or goods not due, and of course to reimburse any amounts already paid by the customer.

Collection of general electricity system charges

In the presence of a legislative framework and numerous rulings in this regard which attribute exclusively to end customers the responsibility for the payment of general system charges, with Resolution no. 430/2018/R/eel – Extension of the procedure concerning guarantees and collection of general system charges for the electricity sector, initiated by Resolution no. 109/2017/r/eel, in compliance with the rulings of the Lombardy regional administrative court 237/2017, 238/2017, 243/2017 and 244/2017 – by 30 June 2019 ARERA had planned to define a mechanism to allow sellers to recover general system charges paid since January 2016 (date of entry into force of the electricity distribution network code) but not collected from end customers. At present the issue is very controversial and the Authority, pending a stable determination of the process of collection of general charges, has set up a technical roundtable involving various stakeholders to define a transitional mechanism that allows the repayment of the sums advanced by sellers.

CADE update

Through two separate consultations, no. 412/2019/R/eel – Modification of the process of termination of dispatching and transport contracts and activation of services of last resort in the electricity sector – and no. 530/2019/R/eel – Updating of the standard network code for the electricity transport service – the Authority described its guidelines in order to strengthen the entire system. The proposed actions relate to the reduction of debt collection times and contractual termination, thereby reducing the cost of the guarantee system for compliant transport users. In fact, ARERA hypothesised a reduction in the amounts of the guarantees to be given by sellers, which are currently commensurate with 3-5 months of turnover, down to 2-4 months of turnover. Moreover, it proposed measures to reinforce guarantees, with particular attention to the rating and the insurance surety, as well as the clause verifying the regularity of payments and the procedures for verifying the adequacy of the amounts of guarantees given.

Dispatching contract

With Resolution no. 83/2019/R/eel – Verification of the conformity of proposals to amend the grid transmission, dispatching, development and security code in relation to the system of guarantees to be provided by users of withdrawal dispatching – the Authority positively assessed some proposals to amend Terna's Grid Code with respect to the system of guarantees to be provided by users of withdrawal dispatching. Specifically:

- the minimum value of the guarantee set at € 50,000;
- the reduction of the time for the integration of the guarantee to 7 business days;
- expansion of the payment punctuality observation period to 12 months;
- possibility for users to issue a first-request bank or insurance surety as a guarantee.

With Resolutions 272/2019/R/eel – Provisions functional to the extension of the ex-ante verification of the annual average power value with reference to the switching requests submitted by each

dispatching user – and 494/2019/R/eel – Approval of the proposal by Terna of the method for correlating the financial value of the guarantees given by the dispatching user to its equivalent in mw for the purposes of determining the value of max PMAu for each user – the Authority introduced the concept of Annual Average Power (AAP) value for which the dispatching user is required to issue guarantees. The request for switching is now also subject to the IWS's verification of the AAP value, which cancels the request in the event of a negative outcome.

The Authority plans to extend the same mechanism to the transport contract.

Restoration of financial compensation for arrears related to fraudulent withdrawals

With resolution 568/2018/R/eel, the Authority initiated a process to modify the mechanism in question in order to better incentivise the collection of receivables and to better manage some timing, and therefore suspended the regulation governing the collections mechanism for all arrears deriving from fraudulent withdrawals (16bis of the TIV).

Following DCO 49/2019 and with subsequent Resolution 119/2019/R/eel – Measures to make the management of fraudulent use by end customers of the standard service more efficient, with greater protection and revision of the mechanism referred to in article 16bis of the TIV – the Authority reinstated the rule governing the compensation mechanism, but with amendments.

It introduced the obligation to issue the invoice for fraudulent withdrawals separately and within 45 days (90 days for invoices already issued in 2016 and 2017) from the date of receipt of the meter data reconstructed by the distributing company, providing for a reduction in compensation of -10% for each month of delay, up to a maximum of -50%.

With the same measure, the Authority therefore specified the timing related to the application to be submitted in 2019 (by 30 September 2019), classified the case of fraudulent use in the absence of a contract and established the information flow, through the IIS, with which the distributor informs the main utility provider of the fraudulent withdrawal that has been ascertained.

Postponed to a subsequent provision the adoption of measures to improve the efficiency of the management of fraudulent withdrawals by distribution companies and the regulation relating to the disconnection of withdrawal points subject to fraudulent withdrawals.

On 3 June 2019, Acea Energia filed an appeal requesting the annulment of Resolution 119/2019/R/eel contesting the retroactive application of the mechanism linking the amount to be offset to the date of issuing the bill containing the reconstruction for fraudulent withdrawals also for the periods prior to the entry into force of the resolution itself (April 2019), i.e. from 2016 to March 2019 in which there were no specific billing timeframes that would affect the amount subsequently granted to the main utility provider.

On 30 September 2019 Acea Energia filed an application for participation in the compensation mechanism with regard to bills issued in 2016.

Cessation of price protection schemes (Annual Market and Competition Law for 2017. Italian Law no. 124 of 4 August 2017)

The “Annual Market and Competition Law”, no. 124 of 2017, which entered into force on 29 August 2017, provided for the termination of price protection schemes both in the electricity and gas sectors starting from 1 July 2019. The implementing decree of the MISE, expected by April 2018 and not yet issued, should define the measures to ensure the termination of the transitory price regulation and the conscious entry into the market of final customers, according to mechanisms that should ensure competition and the plurality of suppliers and offers in a free market.

On 21 September 2018, Italian Law 108, which converted Italian Decree Law no. 91 of 25 July 2018, postponed the termination of the price protection schemes until 1 July 2020.

On 31 December 2019, Italian Decree Law no. 162/2019 was approved (so-called 1000 Postponements) establishing a further postponement of the termination of the price protection schemes to 1 January 2022.

In the meantime, with Resolution 59/2019/R/com – Voluntary guidelines for the promotion of electricity and natural gas offers benefiting purchasing groups aimed at domestic end customers and small businesses – the Authority prepared Guidelines (LGA) with voluntary participation for the promotion of commercial offers of electricity and gas benefiting purchasing groups and the creation of IT platforms that can facilitate the aggregation of small consumers. These guidelines, effective from 1 May 2019, establish rules of conduct that purchasing groups are required to observe for a period of at least two years after voluntarily adhering to them.

New Standard service for end of the default service

With a consultation (DCO 397/2019 – Standard service for final domestic customers and small businesses in the electricity sector referred to in article 1, paragraph 60 of Italian Law no. 124/17) ARERA proposed its guidelines on the new Standard Service for small customers (i.e. final customers currently using the default service) who will find themselves without a supplier the day after the termination of the default service, hoping for a gradual transition with the application of this service initially only to non-domestic customers, after the necessary legislative action (approach reiterated also with the subsequent Brief 468/2019/II/com – Brief of ARERA on the recent update of the final prices of electricity and natural gas and on the initiatives launched by it to benefit consumers with regard to the standard service – of 18 November 2019).

The Authority has proposed a three-year service starting from the assignment through tenders of lots (subject of a subsequent DCO) of about 500,000 to 1 million customers, similar in terms of characteristics and level of arrears, which will be reserved for operators with solid economic, financial, managerial and operational requirements.

The service is assigned to the best price at a discount (or increase) of the PCV. The difference between the PCV and the price offered in the tender, called “alpha” fee, will be charged to the customer after 12 months for domestic and 6 for non-domestic customers or immediately if the “alpha” fee is negative and also applied to free market offers, to avoid distortions between the standard and free markets.

The Regulator therefore proposes two possible alternative models of the service:

model 1: with a Single Buyer responsible for procurement and the main utility provider in charge of sales (with the further hypothesis 1bis in which the Single Buyer is also responsible for the management of the amounts paid by end customers and their distribution among the various parties in the chain);

model 2: with the main utility provider in charge of both procurement and sales.

With regard to the contractual conditions, the Authority proposes that they should be equivalent to the standard PLACET offer, including the prohibition of the inclusion of an additional product or service with respect to the supply of electricity, but with the possibility of always being able to offer one's own product on the free market.

The Acea Group submitted its comments in 5 November 2019, pointing out that under Italian Law no. 124 of 2017 (Competition Law), it appears that the scope of application of the new Standard Service is limited only to customers who, on the date of termination of the price protection, were left without a supplier.

Annual report on the management of complaints and the resolution of disputes

With Resolution no. 54/2019/II/com – Annual report on the

treatment of complaints and the resolution of disputes of electricity and natural gas customers – year 2017 – the Authority published the first Annual report on the treatment of complaints and the resolution of disputes for 2017 in accordance with the new procedures introduced by Resolution no. 623/2018/R/com for articles 38 and 39 of the TIQV.

In general, it should be noted that the customers with the greatest theoretical capacity are those most likely to complain. In fact, the unregulated market accounts for 53% of total complaints in the electricity sector and 58% in the gas sector, despite the fact that the free market represents only 43.7% of the 53.4 million end customers served by the 590 sellers under analysis. Moreover, in the unregulated market it is the non-domestic customers with low and medium voltage supply and those with more complex contracts (multisite or dual fuel) who tend to report more critical issues.

2018 annual report on the quality of call centres and written responses to complaints

With Resolutions 330/2019/I/com – Quality of the telephone services of vendors of electricity and gas. Annual Report – year 2018 – and 331/2019/I/com – Annual report on the treatment of complaints and the resolution of disputes of electricity and natural gas customers – year 2018 – the Authority provided the annual customer satisfaction framework for call centre services and written responses to complaints.

With regard to the quality of call centres, the report showed a decrease in the number of calls compared to 2017, particularly for operators who have developed more technological contact channels, like web services and smartphone apps. In general, the overall satisfaction index (ICS) for call centre services remained high and stable in 2018 (92.3).

With regard to the quality of written responses to written complaints, the report showed a decrease in both complaints and written requests for information compared to 2017, respectively -8.9% and -22.7% in the free market, -17.4% and -16.4% in the standard market. In particular, in 2018 billing issues were again the main topics of complaints and conciliations.

ARERA inspection on sanctioning procedure for failure to or late payment of automatic indemnities

On 20 February 2019, the Authority carried out an inspection at Acea Energia's headquarters to verify 1) the cessation of the conduct contested in 2015 by resolution 111/2015/S/EEL – Initiation of proceedings for the adoption of sanctioning and prescriptive measures for failure or late payment of automatic compensation – concerning the failure to pay compensation to standard service customers within eight months of the date of receipt of the written complaint, 2) as well as the implementation of the commitments made therein.

On that occasion, Acea Energia provided all the documentation requested by the Authority (mainly relating to demonstrating the correct payment of compensation in the event of responses to complaints sent late) and as of today has not received any complaint from the Authority.

Other Deliberations of the Authority

The electricity and gas “Consumption Portal” online

With Resolution no. 270/2019/R/com – Establishment of the electricity and natural gas consumption portal in implementation of Italian Law 205/2017 – the Authority announced the availability of the “Consumption Portal” as of 1 July 2019 (www.consumienergia.it), an instrument integrated with the IIS and managed by the Single Buyer in order to “empower” the final customer with respect to its electricity and gas consumption (regardless of the level of consumption) and to comply with the provisions of Italian Legislative Decree 102/2014 on the right of the final customer to access its use data. Subsequent developments allowed access to the Portal by third

parties authorised by the customer (e.g. energy service providers) and the development of synergies with the Offers Portal, so that customer annual expenditure estimates are calculated on the basis of actual past consumption.

Provision of GAS measurement data via IIS

With Resolution 271/2019/R/gas – Provisions relating to the process of making available the technical data of the redelivery points and the measurement data to the Integrated Information System and modification of the communication standards with reference to the gas sector – and subsequent Resolution 6/2019 – Modifications and integrations to the Operating Instructions and the xml structures to be used for the exchange of information with respect to the communication standards for the natural gas sector – the Authority gave a mandate to the IWS Operator for the publication of new data files, which, from February 2020, will be used for:

- the provision of technical data, information and measurement data collected during the replacement of the meter and other technical service;
- the provision of the periodic measurement data collected in accordance with the TIVG, the self-readings made by end customers, the measurement data collected during switching, as well as other technical services requiring the collection of measurement data;
- making available the corrections to the measurement data submitted with the two previous flows.

At the same time, the Authority has defined the procedures and timing that, given the specified starting date, allow the distribution companies to transfer the largest number of measurements to the IIS to be used for their settlements.

The effective date of the new data files was later extended to 1 June 2020 with Resolution no. 493/2019/R/gas – Update of the methods and timelines for making available the technical data of redelivery points and measurement data for the gas sector to the Integrated Information System.

New regulations for the compensation system on the IIS – gas

With Resolution 406/2018/R/com – Entry into force of the regulation of the indemnification system within the Integrated Information System, for the electricity and natural gas sectors – the Authority established that from 1 June 2019 the processes relating to the indemnification system would be managed exclusively within the IIS, even for the gas sector.

Reform of charges for domestic customers

With Resolution no. 626/2018/R/eel – Further deferral of the completion of the reform of the tariff components to cover general system charges for domestic electricity customers, as set out in the Authority's Resolution no. 582/2015/R/eel – the Authority further delayed the completion of the tariff reform for general system charges for domestic customers until 2020. In the meantime, from 1 January 2019 only DISPbt (euro/POD) will apply to resident domestic customers, while the tariff structure already in force in 2018 will be confirmed for customers participating in the heat pump tariff experiment (non-staggered general charges and DISTBT with monomial structure for residents and non-residents).

Electronic invoicing

With resolution 712/2018/R/com – Interventions following the provisions of Italian Law 205/2017 on electronic invoicing with regard to Bill 2.0 for the standard network code for the electricity transport service and for the standard network code for natural gas distribution – the Authority established the first functional provisions to coordinate the regulation of summary bills for end customers and electricity and natural gas transport invoices issued by distributors with new laws in force since 1 January 2019 on

electronic invoicing as envisaged by the 2018 Italian Budget Law. With the subsequent resolution 246/2019/R/com – Additions and amendments to the Authority’s resolution no. 712/2018/R/com on electronic invoicing following the provisions of Italian Law 205/2017 – the Authority returned to the subject, supplementing and amending some technical aspects of the previous resolution:

- the possibility to include in the “invoice file” (replacing the summary bill) the corresponding alphanumeric code (unique and encrypted);
- the inclusion of the reference to the corresponding electronic invoice number submitted to the SDI in the summary bill;
- the obligation to record and archive the summary bill, details and accounting documents of the distribution service for at least 10 years.

POWER GENERATION REGULATION

District heating

2018 was a year of intense development with regard to regulation in the district heating sector, attributed to ARERA by Italian Legislative Decree 102/2014.

During the year and after an intense activity of analysis and discussion with operators and associations, ARERA began to outline the guidelines for the future regulation of district heating.

With resolution 24/2018/R/tlr and subsequent resolution 277/2018/R/tlr, ARERA issued the “Consolidated Law on the Regulation of the criteria for determining the connection fees and the procedures for the exercise by the user of the right of withdrawal for the regulatory period 1 June 2018-31 December 2021 (TUAR)” in which it defines the regulation of the criteria for determining the connection fees and the procedures for the exercise by the user of the right to deactivate the supply and disconnection from the district heating network for the regulatory period 1 October 2018-December 2020.

With resolution no. 574/2018/R/tlr of 13 November 2018, ARERA defined the information obligations of parties operating in the district heating and cooling sector with regard to the Operators’ and Territorial Register and the procedures for submitting applications for exclusion of networks from the Authority’s regulation. The document, called “Information requirements for district heating and cooling operators (OITLR)” establishes that:

- a) parties operating in the district heating sector that have not yet registered in the “Operators’ Register” must do so by 31 December 2018 based on the new provisions;
- b) network operators must verify and, where necessary, supplement or update the information relating to each network they manage by 31 March 2019 at the latest using the “Anagrafica Territoriale (ATT)” computer protocol.

With Resolution 661/2018/R/tlr, ARERA defined the regulation of the commercial quality of the district heating service for the regulatory period 1 July 2019-December 2021 and provided for the initiation of a procedure for the revaluation of the provisions on the exercise of the right of withdrawal established by the TUAR and some amendments thereto. ARERA has also launched a consultation on the technical quality of district heating, DCO 691/2018/R/tlr, which is expected to be completed in 2019. Unlike the regulation of other regulated sectors, the regulation of district heating lacks the typical tariff oversight, because while the sector is regulated it operates under market conditions and not according to tariffs established by ARERA. Therefore activities related to quality are ARERA’s main contributions to the sector.

In 2019, the regulator published the following integrated texts relating to the sector: 1) RQTT – Regulation of the technical quality of district heating and cooling services – resolution 548/2019/R/tlr and 2) TITT – Transparency of district heating and cooling services – resolution 313/2019/R/tlr.

With resolution 313/2019/R/tlr, the Regulatory Authority for Energy Networks and Environment (ARERA) defines the transparency regulations for the district heating and cooling sector for the regulatory period 1 January 2020-31 December 2023. The scope of the intervention includes the minimum contents of supply contracts and invoicing documents, the methods of publication of prices applied by operators and other information concerning the quality of service and environmental performance. It is also envisaged that the Authority will launch a price monitoring system.

With resolution 548/2019/R/tlr (RQTT), ARERA adopted the regulation of the technical quality of the district heating service, with particular reference to safety and continuity of the service, for the regulatory period 1 July 2020-31 December 2023.

Hydroelectric concessions

Italian Law no. 12 of 11 February 2019, which converted Italian Decree Law no. 135 of 14 December 2018 (the “Simplifications” decree), introduced important changes to the regulation of concessions for large hydroelectric derivations. In particular, article 11-quater of Italian Law no. 12 of 11 February 2019 envisages an amendment to Italian Legislative Decree no. 79/1999 essentially establishing the regionalisation of ownership of hydroelectric works upon expiry of concessions or in cases of forfeiture and renunciation thereof. In detail, the article establishes that so-called “wet works” (dams, canals, pipelines, etc.) will be transferred free of charge to the regions, while the so-called “dry works” (buildings, machinery, electrical equipment, etc.) will be transferred to the regions upon payment of a price to be quantified net of depreciated assets.

“Where they do not consider that there is an overriding public interest in a different use of water, incompatible with maintaining the use for hydroelectric purposes”, the Regions may award concessions for large hydroelectric derivations:

- to economic operators identified by means of public tenders;
- to companies with mixed public-private capital where the private partner is chosen by means of public tenders;
- through forms of public-private partnerships.

The regions are given until 31 December 2020 to put in place a law regulating the methods and procedures for the allocation of concessions for large water derivations for hydroelectric purposes.

For all concessions expiring before 31 December 2023 and for those that have already expired, the regions “govern by law the methods and conditions of the outgoing concession holder for the continuation of the derivation on behalf of the regions themselves”.

ENVIRONMENTAL REGULATION

Arera activity: Environment Segment

With Resolutions 82/2018/R/rif, 225/2018/R/rif and 226/2018/R/rif three proceedings were initiated for the adoption of measures, respectively:

- provision of a system of safeguards for the management of complaints and disputes of users;
- tariff regulation;
- quality of service regulation.

These initial documents were followed by resolutions containing the Integrated Text:

- Resolution 443/2019/R/rif – MTR - Integrated waste management service tariff method;
- Resolution 444/2019/R/rif – TITR – Transparency in the waste management service for the regulatory period (1 April 2020-31 December 2023).

The Integrated Waste Management Service Tariff Method, Resolution 443/2019/R/rif – MTR establishes the limits of the tariffs and prepares four different schemes that can be adopted by local

authorities and operators with respect to the objectives of improving service to the public.

The services regulated by the new tariff method are: 1) street sweeping and washing; 2) collection and transport of municipal waste; 3) treatment and recovery of municipal waste; 4) treatment and disposal of municipal waste; and 5) management of tariffs and user relations.

The formulas indicated in the RDF confirm that the total tariff revenue of reference (TARI 2020-2021) is the sum of revenue to cover fixed and variable costs recognised by the Authority in continuity with Italian Presidential Decree no. 158/99 and determined according to criteria of efficiency, transparency and uniformity, reclassifying the charges attributable to the individual activities of the integrated cycle. For the purpose of assessing the costs recognised to the operator, the main new development lies in the fact that the Method refers to costs incurred that are reliable and certain, as resulting from obligatory accounting sources, compared to the methodology adopted in the sector up to that moment. This change is significant since the tariff method pursuant to Italian Presidential Decree no. 158/99 envisaged the recognition of costs on the basis of their inclusion in the economic and financial plan, and therefore with reference to planned and/or estimated costs.

The criteria established by the Authority will be applied in the first tariff period indicated as the years 2020-2021, both with regard to the monitoring and the valuation of efficient costs for 2018 and 2019 (with the possible quantification of any adjustments).

However, the regulation the sector is subject to is gradual and asymmetrical in that it takes account of the different territorial starting conditions. In fact, as ARERA itself states, this is a first implementation phase characterised by strong lack of uniformity in governance at a local level, and for which the Authority envisages that it will be the local government – or other territorially competent entities like the Region or other bodies designated by the Region, even at a supra-municipal or provincial level – that carry out the validation that the regulator deems necessary in order to ensure complete, consistent and adequate information starting from the data submitted by the operators.

This first implementation phase will be followed by a second phase in which the Authority will put in place (as clearly indicated in Resolution 443/2019/R/rif) tariff regulation criteria for access to treatment plants, indicating that specific tariff parameters will be defined for each type of plant where the treatment (recovery and disposal) of waste can be distinguished. The adoption of the first consultation document on access charges for municipal waste treatment plants will be prepared as early as the first half of 2020. In fact, at the moment the topic of plant engineering is only dealt with in terms of the ARERA 2019-2021 Strategic Plan, in which under point “OS. 13 Promotion of adequate infrastructure for the management of the waste cycle” ARERA specifies the main lines of action:

- adoption of (asymmetric) tariff regulation for the different treatment and disposal services and concurrent definition of criteria for access to the plants; development of mechanisms to promote treatment investments, also by assessing ways of allocating capacity over several years and promoting the most relevant ones in terms of benefits for the system;
- introduction – taking into account the investment needs – of mechanisms to promote social acceptance of the investment needed in strategic treatment plants for the rebalancing of physical waste flows and the closing of the cycle.

One of the regulatory elements included in the tariff method scheme for the integrated waste system is the waste sector WACC, equal to 6.3% for the period 2020-2021. Although the Authority recognises strong differences in the financial and ownership structure, it does not introduce significant new elements or differentiation with respect to traditional regulated sectors, referring to the electricity and

gas integrated text, TIWACC – resolution 583/2015/R/com and following. The current design recognises the same returns for investments in collection and transport activities (asset light with a prevalence of personnel-related operating costs) and for investments in treatment (asset intensive).

SCENARIO OF REFERENCE FOR ESG ASPECTS (ENVIRONMENTAL, SOCIAL, GOVERNANCE)

Sustainable development

The 2019 sustainability scenario has been subject to evolutionary pressures from public and private institutions both nationally and internationally. Of note, for example, is the new direction given by the European Union with the Action Plan to finance sustainable growth, and subsequently with the Green New Deal, which the Commission chaired by Ursula von der Leyen has placed at the centre of its strategy. The latter, closely related to the objectives of the UN Agenda 2030 (SDG), aims to reconcile the economy with the principles of environmental protection and social inclusion, espousing the paradigm of the circular economy. Making the EU climate-neutral in 2050 and decoupling growth from resource consumption and ensuring a balanced social transition are some of the biggest challenges that can be dealt with also thanks to adequate financial investment. This is in sync with the new policy of the European Investment Bank (EIB), which from 2020 plans to align its activities with the objectives of the Paris climate agreement, and from 2021 to interrupt funding for fossil fuel projects. However, notwithstanding strong positions like those of Europe, at an international level a setback was suffered due to the substantial failure of the UN Climate Conference (COP 25) held in December in Madrid, which postponed some important decisions until 2020, including the definition of the rules for the carbon market.

Confirming the European position, national institutions are oriented towards the cross-cutting integration of sustainability and support for the transition to a circular economy. Regulatory interventions have already produced basic measures such as the climate law decree, then converted into law, which introduces among other things the transformation of the CIPE into CIPES (Interministerial Committee for Economic Planning and Sustainable Development), legislation on the end of waste and an investment plan for the Italian Green New Deal outlined in the 2020 finance law. These initiatives should facilitate making up for the delays that our country is experiencing in the pursuit of the SDGs despite encouraging signs, as noted in the ASviS 2019 report presented in October to the highest Italian institutional offices.

Another sign of the change under way, in this case coming from the production system, was launched by the Business Roundtable, an association that brings together more than 180 of the largest U.S. companies, which by redefining in its statement the purpose of the companies has unequivocally affirmed their role in the creation of long-term value for the benefit of all stakeholders. Similarly, in Italy great attention was paid to the announcement of the updating of the Code of Self-Regulation for Listed Companies, which will represent a best practice for companies in adopting strategies increasingly oriented towards sustainability: “The primary task of the board of directors is to pursue the company’s ‘sustainable success’, where long-term value creation for the benefit of shareholders is pursued taking into account the interests of other stakeholders”.

Taking into account these developments, Acea continues its development by integrating sustainability in its strategies and organisation. In this regard the updates to the Business Plan and the Sustainability Plan for 2019-2022 are particularly worthy of note, with an increase in investments related to sustainability targets of € 400 million, equal to half of the entire amount of new investments, for a total value of investments linked to sustainability aspects over the plan peri-

od of €1.7 billion. An initial sharing of the programme and the main initiatives put in place by the company on sustainable development and innovation with the public and qualified stakeholders was made possible during the year thanks to two important initiatives: Acea Sustainability Day and Acea Innovation Day.

Environmental and energy impacts

The natural environment is the scenario where the activities of the Group are performed and is to be preserved with a responsible and efficient use of resources, protecting sources, safeguarding the natural areas where the plants and service networks encroach, mitigating the physical and the external impacts generated in the ecological context of the operating processes. One example is energy generation, where repowering initiatives are constant in order to modernise plants including by pursuing lower environmental impacts in terms of emissions, or the integrated water service, where Acea's responsible management starts with the supply phase, making it available to people, and concludes with a commitment to return wastewater to the receiving body in the best possible conditions, and again to the environmental services sector linked to waste management, where the commitment to the ecosystem concerns both operational processes and the transformation of waste in a circular economy, as is the case for the treatment of sewerage sludge.

In keeping with the desire to operate while respecting and protecting the surrounding environment, Acea implemented initiatives aimed at better managing the aspects of its activities that have a general impact on the environment and specifically on energy, also thanks to the use of advanced systems and technologies.

- Management systems: the widespread adoption of environmental and energy management systems is a concrete response on the importance of environmental dynamics for Acea and a managerial tool for continuous improvement in performance.
- Mobility management: in this context, the Acea Group has undertaken initiatives to reduce employee travel and to encourage less polluting means of transport.
- Carbon Disclosure Project (CDP): Acea publishes its initiatives, communicating them to the international CDP organisation, which produces annual online reports aimed at informing analysts and lenders about the levels achieved by companies in managing risks and opportunities related to the topic of climate change.
- Green purchases and environmental awareness development of the supply chain: Acea has set itself the objective of increasingly integrating the assessment of environmental aspects through the adoption of CAMs for the supply of compatible product categories. Moreover, it has committed to assessing its suppliers on an annual basis with regard to the environmental performance of the products/services supplied, and to inform/train contractors and subcontractors regarding the environment.
- Energy management: using energy management Acea Group promotes the improvement of the energy performance of plants and buildings by implementing best practices to reduce energy consumption and encourage the use of energy from renewable sources.

Acea has included actions to combat climate change in its 2019-2022 Sustainability Plan, which includes both mitigation and adaptation actions and monitors the matter and related EU and international developments (the COP – Conference of the parties and European legislation). Environmental issues related to the array of services provided by the Group are included in the Organisation and Management Model pursuant to Italian Legislative Decree no. 231/2001.

Development and technological innovation

The Innovation, Technology & Solutions Function reports directly to the CEO and has the task of ensuring a model of innovation for the Group through the adoption of processes and approaches typical of open innovation, with the involvement of internal and external stakeholders as defined by the Industrial Plan. In this context, the dissemination of a culture of innovation has been encouraged by involving all Group employees in specific initiatives; partnerships have been established at a national and international level with the aim of strengthening Acea's positioning in the innovation ecosystem and identifying new business opportunities; innovative solutions (proof of concept) from start-ups and SMEs have been analysed and tested.

Development of human capital

People are the most important resource and they are given the tools and skills necessary to respond effectively to the challenges of the business during the main stages of corporate life: selection, welcoming, training, rewarding and development.

Entrepreneurship, teamwork and action are the three driving values of the Leadership Model upon which the Group's initiatives are built to achieve the goals of the strategic plan and the sustainability plan. The Human Resources Function works on skills and improving people management and development processes in three different ways:

- professional development, managerial growth, training and development of skills;
- involving people in the Group's identity;
- inclusion and organisational well-being, recognising the strategic value of diversity and workers' health and safety.

Sustainable management of the supply chain

At the service of the community and the public, Acea is fully mindful of the virtuous partnership that can be established with the supply chain. In fact it attributes greater value and reliability to contractors that have certified quality, environmental, safety, energy and social responsibility management systems and provides a self-assessment questionnaire on these issues for the majority of suppliers that register for qualification systems. In terms of green procurement, Acea applies the Minimum Environmental Criteria in its tender specifications and is working to extend this same approach to product categories that are not yet mentioned in the relevant Ministerial Decrees. With the aim of raising awareness and supporting the continuous improvement of the supply chain, Acea also carries out second-party verifications and strict safety controls at construction sites.

This brings to light good practices and, at the same time, identifies shared paths towards growth and improvement.

Health and safety in the workplace

Acea works hard to instil a widespread safety culture, involving all its employees and the supply chain. It therefore carries out targeted awareness campaigns addressed both internally and to contractors, directly involving people, in the belief that it is necessary to set up effective tools for the prevention of accidents. For this purpose, it has also implemented an advanced risk assessment model, not to mention control and mitigation measures. Acea's "Vision" of workplace safety – which is the prelude to the preparation of a model of Safety Governance – and the theoretical and practical tools to achieve it have been defined together with top management. The Parent Company set up a Group RSPP Coordination Committee, which meets quarterly in order to, among other things, share the results of safety performance analyses and share experiences and good practices. A special H&S Dashboard was also prepared and has become a shared tool for the reporting of occupational health and safety performance.

TREND OF OPERATING SEGMENTS

ECONOMIC RESULTS BY SEGMENT

The results by segment are shown on the basis of the approach used by the management to monitor Group performance in the

financial years compared in observance of IFRS 8 accounting standards. Note that the results of the “Other” segment include those deriving from Acea Corporate activities as well as inter-sectoral adjustments.

31/12/2019	Environment	Commercial and Trading	Overseas	Water	Energy Infrastructures				Engineering and Services	Other	Consolidated Total		
€ million					Generation	Distribution	IP	Adjustments	Total	Corporate	Consolidation adjustments		
Revenues	183	1,619	48	1,049	80	559	45	(1)	683	79	143	(574)	3,230
Costs	131	1,550	32	544	35	214	43	(1)	291	66	148	(574)	2,188
EBITDA	52	69	17	505	45	345	2	0	392	13	(6)	0	1,042
Depreciation/ amortisation and impairment charges	31	51	9	253	22	130	2	0	154	2	24	0	524
Operating profit/loss	21	18	8	252	23	215	(0)	0	238	11	(29)	0	518
Capex	52	43	7	380	19	266	3	0	288	2	22	0	793

The revenues in the above table include the condensed result of equity investments (of a non-financial nature) consolidated using the equity method.

31/12/2018	Environment	Commercial and Trading	Overseas	Water	Energy Infrastructures				Engineering and Services	Other	Consolidated Total		
€ million					Generation	Distribution	IP	Adjustments	Total	Corporate	Consolidation adjustments		
Revenues	174	1,693	39	841	81	559	48	(2)	687	74	129	(566)	3,072
Costs	108	1,617	24	408	32	242	54	(2)	326	56	164	(566)	2,139
EBITDA	66	76	15	433	49	317	(5)	0	361	18	(35)	0	933
Depreciation/ amortisation and impairment charges	27	72	7	212	24	129	9	0	162	3	(28)	0	455
Operating profit/loss	38	4	8	221	25	188	(14)	0	199	15	(7)	0	479
Capex	20	25	7	330	16	218	4	0	238	2	10	0	631

INDUSTRIAL SEGMENTS

Acea's macro structure is organised in corporate functions and six operating segments: Water, Energy Infrastructure, Commercial and Trading, Overseas and Engineering and Services.



ENVIRONMENT OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2019	31/12/2018	Change	% Change
WTE conferment	kTon	437	466	(29)	(6.2)%
Net Electrical Energy transferred	GWh	327	355	(28)	(7.9)%
Waste coming into Orvieto plants	kTon	100	89	11	12.1%
Waste Recovered/Disposed of	kTon	682	565	116	20.6%
<i>of which</i>					
<i>Incoming waste composting plants, sludge and liquids disposed of</i>	kt	577	480	98	20.3%
<i>Slag and Ash produced by WTE</i>	kt	73	86	(13)	(14.6)%
<i>Sorting plant incoming waste (Demap)</i>	kt	31	0	31	n.s.

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	182.9	173.9	9.0	5.2%
Costs	130.9	108.3	22.6	20.9%
EBITDA	52.0	65.6	(13.6)	(20.8)%
Operating profit/(loss) (EBIT)	21.1	38.4	(17.4)	(45.2)%
Average headcount	389	360	29	8.1%
Capex	51.9	20.0	31.9	159.6%
Net financial debt	256.5	203.6	52.9	26.0%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Environment Segment	52.0	65.6	(13.6)	(20.8)%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	5.0%	7.0%	(2.0 p.p.)	

The Segment closed the financial year 2019 with an EBITDA of € 52.0 million (- 20.8%). This result is mainly attributable to **Acea Ambiente** (- € 17.6 million) due mainly to lower revenues from CIP 6 tariffs which, although extended until 31 July 2019, produced a reduction of € 16.7 million and other residual effects such as lower revenues from electricity sold and contributions related to the San Vittore plant in Lazio because of a prolonged plant shutdown and higher costs for tariff increases on CO₂.

The EBITDA of the Segment also increased due to the change in the scope of consolidation as a result of the first-time consolidation of the company **Demap** (+ € 1.8 million) and **Berg** (+ € 0.5), partially offset by **Bioecologia** (- € 0.2 million). Finally, the first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower costs for leases and rentals for € 1.0 million.

The average number of staff as at 31 December 2019 was 389, 29 more than the previous year. The growth is mainly due to the consolidation of **Berg** (+ 4 units) and **Demap** (+ 7 units), as well as to the increases recorded by **Bioecologia** (+ 9 units) and **Acea Ambiente** (+ 8 units).

Investments in the area amounted to € 51.9 million, up by € 31.9 compared to the previous year, and mainly refer to 1) revamping at the Monterotondo Marittimo plant; the inauguration of the expansion of the plant for the treatment of composting waste and anaerobic digestion took place on 10 October; 2) works carried out at the WTE plants in Terni and San Vittore; 3) works to extend the landfill located in Orvieto.

The financial indebtedness of the Segment stood at € 256.5 million, a decrease of € 52.9 million compared to the previous year. This trend

is essentially due to the lower cash-in from CIP 6 and the pay-out related to the acquisition of equity investments during the year. The first application of IFRS 16, on the other hand, increased the financial debt by € 4.7 million. The change in the scope of consolidation net of the application of IFRS 16 contributed positively for € 0.7 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

During the second half of the year the Segment expanded to include Demap Srl (acquired on 4 July with a 90% stake) and Berg SpA (acquired on 18 October with a 60% stake).

As regards the single local units, it should be noted that:

Terni (UL1): during the year, the contractual planning for the delivery of pulper waste guaranteed the fuel requirements for the entire period, and the expected performance was affected – both as regards waste pre-treatment activities and the production of electricity – by controlled operation at a reduced load and a shutdown for maintenance earlier than planned, carried out to perform functional checks of the plant aimed at solving critical issues on atmospheric emissions. Starting in April 2019 there was a variable and increasing trend in the quantities of micropollutants in the plant's atmospheric emissions compared to historical data, though still within legal limits. In compliance with authorisation requirements, monitoring was carried out with initial feedback sent to the Control Bodies. After verification the results confirmed compliance with the emission limits, with values in line with historical data.

Paliano (UL2): on 19 June 2019 the results of the characterization activities of the former purification plant area were submitted to the Ministry, with a concurrent request for clearance for demolition. Based on an analysis of the above results, the Ministry requested a communication to the Entities pursuant to art. 245 of Italian Legislative Decree no. 152/06 (CSC breaches by a non-responsible party). On 3 September 2019 the aforesaid communication pursuant to article 245 of Italian Legislative Decree no. 152/06 was sent to the various Entities, as requested by the Ministry.

On 20 December 2019 the Ministry of the Environment sent the results of the sampling carried out by ARPA Lazio, based on which breaches of the CSCs in the soil and groundwater were confirmed for some parameters.

Based on the results of the sampling and analysis carried out by both Acea Ambiente and ARPA Lazio, and based also on what was reiterated by the Ministry of the Environment, the procedures that will make it possible to carry out treatments in situ are being verified. In parallel, sampling and analysis will be carried out on the remaining area of Castellaccio, already defined in the Ministry of the Environment's decree. At present, work has begun on the preparation of the reclamation project.

San Vittore del Lazio (UL3): the waste-to-energy plant is destined for the production of electricity from renewable sources, and in particular from RDF produced by the treatment of urban waste exclusively from the territory of the Lazio Region. During the year the three lines of the plant guaranteed regular operation in terms of operating hours, which were higher than expected. Although production was lower, revenues from electricity benefited from CIP6 tariffs until 13 July 2019.

It should be remembered that the San Vittore plant is now the only waste-to-energy plant on a regional scale and represents a strategic terminal for the waste chain.

By Order of the President of the Lazio Region no. Z00001 of 5 July 2019 concerning "Ordinance pursuant to art. 191 of Italian Legislative Decree no. 152 of 3 April 2006 to ensure the restoration of waste collection in Roma Capitale", in order to ensure the treatment phase of the waste management cycle Acea Ambiente Srl was ordered, among other things, to carry out the following activities with regard to the San Vittore del Lazio waste-to-energy plant, to operate with immediate effect at the maximum authorised treatment capacity on a daily basis, guaranteeing treatment even on public holidays according to the requests that AMA SpA would subsequently formalise, guaranteeing the services established by the BATs for the sector at the minimum established in the various treatment flows.

In addition, the aforementioned Ordinance directly ordered the Company to postpone all scheduled maintenance beyond the 32nd week, taking into account the typical decline in waste production in August.

The effects of the Ordinance therefore led to the postponement of the maintenance of the three lines, initially scheduled for the month of July, to after 12 August. This postponement had a negative impact on the treatment capacity and electricity production of the three lines, with particular reference to Line 1 and Line 3, which suffered the postponement of boiler cleaning and air condensers and, only for Line 3, the replacement of the boiler superheater banks.

The content of Ordinance no. Z00001, set to expire on 30 September 2019, was subsequently renewed with Ordinance no. Z00002 of 30 September 2019 extending the expiry to 15 October 2019.

Finally, it should be noted that, with regard to the San Vittore del Lazio waste-to-energy plant, the new Ordinance no. Z00003 of 27 November 2019 proposed operating with immediate effect at the maximum authorised treatment capacity on a daily basis, guar-

anteeing treatment even on public holidays until 15 January 2020, as requested by AMA SpA.

On 23 May 2019 a new Agreement was signed with the Municipality of San Vittore del Lazio governing the relationship between the company and the Municipality until 31 December 2019, including payment for the so-called externalities arising from the plant's operation, pending the signing of the final Agreement and, in any case, under an extension until 31 December 2021. This Agreement also constitutes a settlement of current disputes between the parties relating to fees and settlements of pending litigation as well as any tacit settlement of charges and collection premiums for the year 2018 and for the first half of 2019.

As a result of the new public tender that went without bids for the service of transport and recovery/disposal of bottom ash, fly ash and PSR produced by the plant, in June 2019 the service was extended by private negotiation with the outgoing company until 31 March 2020.

Following the launch of the VAS procedure for the new Regional Waste Plan on 6 August 2019, Acea Ambiente submitted comments aimed at better configuring the fourth line that the Waste Plan envisages for the San Vittore site.

Orvieto (UL4): during the period, the supply of non-hazardous urban and special waste continued, implementing the recovery and disposal activities according to the terms provided for therein. On 13 September the contract was also awarded for the construction of the front capping of step 9 of the landfill in operation. The hand-over of the works for the start of the site is currently being planned. On 28 August 2019, in order to optimise plant performance in terms of odour, Acea Ambiente submitted to the Umbria Region a non-substantial amendment request pursuant to art. 29-nonies of Italian Legislative Decree no. 152/2006 for the installation of a concentrated aspiration system and subsequent collection of the extracted air to the air treatment system serving the quality waste treatment and composting plant. To date, the Umbria Region has not yet responded to the request.

On 12 November 2019 Acea Ambiente also presented a revision of the Economic and Financial Plan (EFP) to the AURI of Umbria for the revision of the tariffs established in the resolution.

AURI, by Resolution of the Conference of Mayor no. 16 (Resolution no. 16 AURI) of 3 December 2019, approved the tariffs referred to in the aforementioned EFP but just for the years 2019 and 2020, concurrently acknowledging that these tariffs must in any case be considered provisional since the definitive ones will be those that the AURI will determine as a result of the proceedings initiated by Resolution no. 225/2018/R/Rif (approval of the "Integrated Waste Management Service Tariff Method 2018-2021"), and that therefore the tariffs in question would in any case be subject to adjustment.

With a note dated 6 December 2019, AURI then proposed – pending approval of the Area Plan – the planning of urban waste flows to treatment, recovery and disposal plants for the year 2020.

Monterotondo Marittimo (UL5): with reference to the activities of the plant, on 31 December 2017 the delivery of waste was interrupted in order to proceed with revamping and expansion. During the month of May 2018, construction activities began for the construction of the new plant, and during June 2018 the works were handed over definitively.

On 13 September 2019, in compliance with the provisions of the current IEA, a communication was sent to the Tuscany Region for the start of organic waste transfers from 14 October 2019, with a description of the various phases of plant activation, and on 18 September 2019, in response to further requests from ARPAT, the confirmation of the plant start-up calendar was communicated to the Tuscany Region.

The transfer of woody materials began on 22 October 2019, while

on 31 October 2019, in compliance with the IEA's requirement, the certificate of completion of the work necessary for the start of the transfer of organic waste – which began on 4 November 2019 – was submitted. The first parallel with the electricity grid took place on 5 December 2019.

Sabaudia (UL6): with regard to the composting section of the Sabaudia plant, the Integrated Environmental Authorisation issued by the Lazio Region on 1 December 2008 is still being renewed. In any case the IEA was formally extended by the Lazio Region pending the conclusion of the authorisation process. During the IEA review process, the Province of Latina requested the acquisition of the water authorisation. Acea Ambiente obtained the authorisation under the PAI from the Lazio Region and a favourable opinion for the water concession of areas belonging to the water/fluvial state property from the Consorzio di Bonifica dell'Agro Pontino.

On 27 November 2019 the Province of Latina issued the state concession/authorisation for water alone.

In order to comply with the requirements of the state concession, it will be necessary to carry out certain projects that will make it necessary to temporarily interrupt waste management in order to avoid interfering with the work. A suspension of deliveries was implemented starting 31/10/2019. Operationally, with the temporary suspension of the deliveries, it is expected that the last composting cycles will end by February 2020 and then the work necessary to comply with the requirements of the Water Opinion can begin, which is expected to take at least 9-10 months.

Aprilia (UL7): The plant is authorised for operation with an Integrated Environmental Authorisation issued by the Lazio Region with DD no. G08408 of 7 July 2015 and subsequent amendments.

On 14 December 2017 an emergency preventive seizure order was issued for the entire composting plant currently in operation due to the results of an inspection by the controlling authorities that found the presence of potent miasmas emitted by the production.

By order of the Public Prosecutor's Office of the Republic of Latina of 10 April 2018, the plant was granted provisional use of the facility with authorisation to restart the deliveries in a temporary manner and with strict limitations and prescriptions. The Lazio Region initiated the procedure for the review of the current authorisation, and on 16 January 2019 the first session of the services conference was held, and the second session was held on 28 June 2019.

On 23 July 2019 the Company submitted all the additional/replacement documentation requested. The Lazio Region convened the third session of the services conference on 24 September, subsequently postponed to 1 October.

During the session of the services conference, in order to accelerate the construction of the emission chimneys, i.e. the work proposed voluntarily by Acea Ambiente with which the biofilters will be completely closed and the air conveyed at high into the air through expulsion chimneys, the Lazio Region decided to send a request for a non-substantial change to the IEA.

The design documentation was promptly delivered on 7 October 2019. The Lazio Region authorised the above non-substantial amendment. The Company immediately worked to identify the supplier, both for the executive design and for the construction of the three chimneys.

During the period of reference the plant operated, without prejudice to the seizure with right of use which was otherwise regulated during the current year.

With regard to the new anaerobic digestion plant section, the work was completed on 19 November 2019 with the drafting of the Mechanical Completion. A punch list was drawn up with secondary works still to be completed.

With a note dated 4 December 2019, the Lazio Region sent the acknowledgement of the test certificate. It was therefore possible to

start provisional operation of the plant. Then the sorting/pre-treatment line was started and the digesters were loaded with waste and inoculum according to a loading plan provided by the supplier.

On 20 December 2019, once all technical and administrative activities were completed with the grid operator, the first parallel with the electricity grid was carried out. The plant thus formally commenced operations on that date.

Bioecologia: the company carries out purification, treatment and intermediation of liquid waste in the plants located in Le Biffe, Pianino and ex Comova. During the year, the services provided for in the contracts entered into with the operators of the integrated water service for the purification of urban wastewater in the Municipalities of Chiusi, Buonconvento and Colle di Val d'Elsa were regularly carried out, performing the treatment of special non-hazardous waste at the Chiusi Scalo and Buonconvento plants in compliance with the IEA's requirements. In 2019 no non-conformities regarding tax, environmental and occupational safety issues emerged. The technical management of the plants and the performance of the purification and waste treatment services have been strongly conditioned by the good working order of the machines and equipment, and for this reason maintenance and modernisation works are under way and/or planned for the near future, aimed also at improving the efficiency of the current plant. Works were planned so as not to interrupt the service of reception and treatment of liquid waste. In order to ensure the above, taking into account that only the treatments lines are affected by the works at the Chiusi site, in order to guarantee the continuity of the liquid waste reception service, albeit for volumes lower than the nominal capacity of the plant, it was necessary to set up a temporary mobile department for mechanised grating and desanding of the waste using rented specialised equipment. The mobile plant was then equipped with a deodorisation unit to deal with possible odorous emissions.

With regard to the volumes of waste treated at the Chiusi Scalo plant, the quantity processed during 2019 was 69,258 tonnes. In spite of the restrictions due to the works on the plant, it should be pointed out that during the year the service for the receipt of liquid waste was never interrupted, also ensuring the maintenance of the urban wastewater purification service in the Municipality of Chiusi. Lastly, during the year applications for the review and renewal of integrated environmental authorisations (IEAs) for the Chiusi and Buonconvento plants were prepared and submitted.

Aquaser: mainly operates, as a joint venture, as a waste intermediary with its Customers/Shareholders belonging to the Acea Group. During 2019, the company consolidated its market position by strengthening its transport activities through the acquisition of vehicles and personnel that now allow the management, at least partially, of the corresponding services.

Aquaser currently wholly or partially performs the service of loading, transport and recovery/disposal of waste from water purification for the companies of the Acea Group.

Iseco: operates in the Water Business, whose main activities are the management, maintenance and construction of plants, and the Milk – Dairy Business, whose main activities are the production of whey powder and the sale of related products for zootechnical and food use and the processing of seroderivatives on behalf of third parties.

Acque Industriali: through the management of specific platforms, provides intermediation and liquid waste treatment services to private companies operating both regionally and nationally, as well as activities collateral to those of the integrated water cycle consisting mainly in the recovery and disposal of biological sludge.

The Company carries designs and builds plants mainly related to

the treatment of wastewater and sludge and waste in general, as well as the treatment of atmospheric emissions, following up with their subsequent ordinary and extraordinary management, as well as carrying out design, direction and execution of works in the field of environmental remediation of polluted sites, mainly in the industrial sector. It also performs research and development in the sectors of reference in partnership with research bodies at both a regional and national level.

Demap: carries out its activity in the field of sorting plastic packaging from urban waste collection. It is one of the 30 or so Selection Centres that have an agreement with the Corepla consortium, established by law pursuant to Italian Legislative Decree 22/97 and now regulated by Italian Legislative Decree 152/06, responsible for achieving the recycling and recovery targets for plastic packaging of consumed products.

Separate collection of plastic packaging is regulated at a national level by a framework agreement between Anci and Conai and by the technical annexes concluded between Anci and the individual value chain consortia which, in the case of plastic packaging, provide

that collection may be transferred to the sorting centre either selectively (mono-material collection) or jointly (multi-material collection). Demap carries out its business in compliance with current regulations and is authorised under Italian Legislative Decree 152/06 with procedure issued by the Province of Turin no. 133-25027/2010 of 23 June 2010.

In 2019 the Company regularly performed the services envisaged in the contracts stipulated with Corepla and with the multi-material suppliers, with which the company has a private business relationship. In 2019 a total of 60,804 tonnes of incoming goods were processed, an increase of approximately 2.7% compared to the previous year.

Berg: operates in the environmental services sector and in particular in the treatment of liquid and solid waste. Pursuant to article 2428 of the Italian Civil Code, it should be noted that the activities are carried out at the Frosinone plant, where the Storage and Treatment of Hazardous and Non-Hazardous Liquid and Solid Waste is carried out.

In 2019 the plant confirmed its Structural Solidity by almost completely processing the quantity authorised, i.e. 143,000 tonnes per year of liquid waste.

COMMERCIAL AND TRADING OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2019	31/12/2018	Change	% Change
Electrical Energy sold – Free	GWh	4,235	3,685	550	14.9%
Electrical Energy sold – Protected	GWh	2,219	2,370	(151)	(6.4)%
Electricity – Free market customers (P.O.D.)	N/000	399	331	68	20.5%
Electrical Energy – no. Protected Market Customers (P.O.D.)	N/000	786	846	(60)	(7.0)%
Gas Sold	Msm ³	140	128	12	8.9%
Gas – no. Free Market Customers	N/000	192	173	19	11.2%

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	1,619.3	1,693.2	(73.9)	(4.4)%
Costs	1,550.1	1,617.1	(67.0)	(4.1)%
EBITDA	69.1	76.1	(7.0)	(9.2)%
Operating profit/(loss) (EBIT)	18.3	3.7	14.7	n.s.
Average headcount	470	464	5	1.1%
Capex	42.5	24.6	17.9	72.6%
Net financial debt	(53.2)	(23.7)	(29.5)	124.2%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Commercial and Trading Segment	69.1	76.1	(7.0)	(9.2)%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	6.6%	8.2%	(1.5 p.p.)	

The Segment, responsible for the management and development of electricity and gas sales and related customer relationship activities as well as the Group's energy management policies, closed 2019 with an EBITDA of € 69.1 million, down compared to 2018 by € 7.0 million. The reduction is mainly attributable to **Accea Energia** (- € 7.3 million), only partially mitigated by the improved margin of **Umbria Energy** (+ € 0.5 million) and **Accea8Cento** (+ € 0.2 million).

With regard to the effects on the primary gross margin, the reduction recorded by **Accea Energia** is mainly due to the RCV review and the value recognised for the mechanism for offsetting arrears provided for in Resolution 706/2018 ARERA.

In detail, the energy margin of the **protected market** amounted to € 51.6 million and showed a reduction of € 17.9 million compared to the previous year, partly mitigated by the **free market** margin

which amounted to € 47.6 million and showed an increase of € 0.7 million. The reduction in the margin of the **protected market** is due mainly to lower tariffs and a revision of the compensation mechanism for arrears, while the margin of the **free market** is affected mainly by higher unit sales. The margin of the **gas market**, on the other hand, was € 12.2 million, down by € 0.3 million compared to 31 December 2018, mainly due to the lower margins achieved.

Finally, the energy margin relating to the optimisation of energy flows, amounting to € 6.5 million, is in line with the previous year.

The first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower costs for rentals of € 0.3 million.

The operating result increased by € 14.7 million, an improvement of € 21.7 million over EBITDA, mainly due to lower write-downs on receivables for € 11.0 million primarily as a result of the improved collections, lower provisions for risks for € 8.1 million due to the provisions made in the previous year for energy items (€ 7.7 million) and lower amortisation and depreciation for € 2.6 million due to the revaluation of residual costs for IT projects, including the new CRM. With reference to the workforce, the average number at 31 December 2019 stood at 470 employees; this number was up compared to the previous year by 5 employees. Primary contributors to this change are **Acea Energia** (+ 15 units) compensated by **Acea8cento** (- 10 units).

Investments in the Segment amounted to € 42.5 million, an increase of € 17.9 million, compared to the previous year, mainly attributable to **Acea Energia** for investments related to the acquisition of new customers in accordance with IFRS 15 (€ 17.7 million), for IT implementation projects (€ 14.1 million) and for cloud licences that form the basis of the new Customer Relationship Management (€ 9.9 million).

Net financial debt at 31 December 2019 stood at € 53.2 million, an improvement of € 29.5 million compared to 31 December 2018.

This trend derives from the dynamics of operating cash flow, influenced by the improvement in collection performance. The first application of IFRS 16 resulted in a worsening of financial debt by € 0.6 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

Energy Management

Acea Energia carries out the necessary “Energy Management” activities for the Group’s operations, with particular regard to sales and production activities. The Company also liaises with the Energy Market Operators (GME) and with Terna. In relation to the institutional entity Terna, the Company is the input Dispatch User for Acea Produzione and other companies in the Group. It performed the following main activities in the period:

- the optimisation and assignment of electricity produced by the Tor di Valle and Montemartini thermoelectric plants and by the S. Angelo hydroelectric plant;
- the negotiation of fuel procurement contracts for the power generating plants;
- the procurement of natural gas and electricity for the sales company to sell to end customers;
- the optimisation of the supply portfolio for the procurement of electricity and management of the Energy segment companies’ risk profile.

In 2019 Acea Energia purchased electricity from the market for a total of 8,673 GWh, of which 6,751 GWh through bilateral contracts and 1,921 GWh through Borsa, for resale to end customers of the free market and for the optimisation of energy flows and the purchasing portfolio.

Electricity distribution

As far as the sales market is concerned, the retail portfolio continues to grow and the quality of service improved.

In 2019, Acea Energia sold electricity on the standard market for a total of 2,197 GWh, with a 6.3% reduction on a trend basis. The number of withdrawal points totalled 774,823 (832,719 at 31 December 2018). The sale of electricity on the free market amounted to 3,826 GWh for Acea Energia and 409 GWh for Umbria Energy, for a total of 4,235 GWh, with an increase compared to last year of 14.9%, primarily related to the B2B segment.

In addition, Acea Energia and the other sales companies of the Group sold 139.8 million Sm³ of gas to end customers and wholesalers which involved 192,107 re-delivery points, while at 31 December 2018 they were 172,755.

With regard to the proceedings started by the Antitrust Authority, the main updates are described below:

Proceeding PS9815 of the AGCM antitrust authority for unsolicited activations: the Court of Justice suspended the discussion of the judgement in question, pending the definition of the preliminary questions raised by the Council of State in a different ruling, with reference to the application of the Directive on unfair commercial practices in the electronic communications sector.

The Court of Justice has not accepted the request of the Lazio Regional Administrative Court to implement an “accelerated” procedure for the settlement of the preliminary question.

On 15 May 2019 the EU Court of Justice ruled on the preliminary ruling of the Lazio Regional Administrative Court, stating that: 1) there is no conflict between the directives on unfair commercial practices and on remote contracts (29/2005 and 83/2011) and the sectoral directives (72/2009 and 73/2009); 2) in the energy sector it is also possible to apply the general discipline for the protection of consumers (with consequent competence of the AGCM, pursuant to art. 27, paragraph 1bis, of the Consumer Code). In accordance with Directives 2009/72 and 2009/73, it follows that ARERA is not competent to sanction such conduct.

AGCM proceeding PS9354 for unfair commercial practices: on 26 November 2018 the Authority sent a communication of compliance with the measure adopted on 13 June 2016, also requesting confirmation of the entry into operation of the function relating to the automatic blocking of the collection of consumption for which the five-year prescription had been reached for free-market customers.

On 17 December 2018, Acea Energia verified the above communication, representing that the function went into operation on 11 December 2018.

AGCM proceeding A513 for abuse of a dominant position: on 8 January 2019 AGCM notified the company of the concluding provision of Proceeding A/513. In this order, the Authority ruled that Acea SpA, Acea Energia SpA and areti SpA had committed an abuse of a dominant position – qualified as very serious and of duration quantified in 3 years and 9 months – consisting in the adoption of a broad exclusionary strategy realised through the illegitimate use of a series of prerogatives possessed solely by virtue of its position as an integrated operator in distribution, in order to compete with its competitors in the acquisition of electricity sales contracts in free market conditions.

In view of the gravity and duration of the infringement, the Authority ordered Acea SpA, Acea Energia SpA and areti SpA to pay an overall pecuniary administrative fine of € 16,199,879.09.

In consideration of the fact that in the Sanctioning Measure the Authority considered the contested conduct to be part of a strategic plan defined by the parent company Acea SpA as well as the fact that Acea SpA exercises management and coordination over both Acea Energia SpA and areti SpA, and finally the fact that the Authority has jointly and severally imposed on Acea SpA, Acea Energia SpA and areti SpA said pecuniary administrative sanction

without quantifying the amount thereof for each company, the entire amount of said sanction was recorded in the financial statements of the Parent Company Acea SpA, which has relieved the company by waiving recourse to shares or claims.

On 8 March 2009 Acea Energia filed an appeal with the Regional Administrative Court of Lazio and on 22 March 2009 it filed an expert's report with the court containing the consent reports it received concerning the customer base.

On 27 March 2019, the Council Chamber was held to discuss the application for interim measures, and at that meeting it was asked for the merits of the application for interim measures to be combined with those of the application for interim measures and, on 28 March 2019, filed a request for relief in order to ask the Regional Administrative Court to set up a hearing on the merits as soon as possible.

On 10 May 2019 the AGCM sent a request for information on compliance with measure no. 27496 of 20 December 2018, with particular reference to the issue relating to the collection of privacy consent for commercial purposes.

On 20 May 2019 Acea Energia verified the above communication, noting that the lists of SMT users who have directly given consent to Acea Energia for commercial purposes on the free market for the sale of electricity are not used and that the Company continues to collect the aforementioned consent when stipulating and managing the supply contract.

On 13 June 2019, the Authority expressed the need to set up a hearing with the Companies themselves in order to obtain clarifications regarding the decision to collect privacy consents separately (for the companies of the Acea Group and for third parties).

On 3 July 2019, a hearing was held at the offices of the Authority with representatives of the companies, during which it was reiterated, as already represented in the compliance report and in the reply to the request for information of 10 May 2019, that the consent given by protected users are not used for marketing purposes. A brief was filed on 21 September 2019 in response to the Authority's defence. It insisted that the appeal be accepted and the contested measures voided, or, in the alternative, partial annulment and elimination, or in any event reduction of the fine imposed.

Then, on 2 October 2019, before the Lazio Regional Administrative Court, a hearing was held during which the case was discussed and judgement was deferred.

On 17 October 2019 the Lazio Regional Administrative Court issued sentence no. 03306/19 which upheld the appeal brought by the companies and as a result annulled sanction measure no. 27496 of 20 December 2018 that found that the companies had abused their dominant position in violation of art. 102 of the TFEU, which had led to the imposition of an administrative fine of € 16,199,879.09.

On 17 January 2020 the notice of appeal was served by the Antitrust Authority, represented and defended by the Attorney General's Office, asking the Council of State to annul and/or overturn sentence no. 11960/2019 handed down by the Lazio Regional Administrative Court, and as a result reject the companies' request in 1st instance.

AGCM proceeding PS9974 for unfair business practices: The Authority decided to dismiss the requests for action because the activities put in place by the company, as represented in its reply sent to the authority on 2 July 2018, are considered sufficient to eliminate any commercial improprieties of the type under investigation.

Determination DSAI/5/2020/EEL: initiation of two sanction proceedings for violations of the regulation of the economic items relating to electricity destined for Vatican City State: Pursuant to resolution 58/2019/E/eel, on 20 March 2019 the Authority initiated a fact-finding investigation against Acea Energia with the aim of acquiring information and useful data concerning the manage-

ment of the financial items relating to electricity destined for Vatican City State (hereinafter VCS).

In accordance with this resolution and pending the conclusion of the aforementioned investigation, the Authority has specified to the CSEA that it should proceed on a transitional basis and subject to adjustment to equalise the costs of purchasing and dispatching electricity for protected customers as incurred by Acea Energia in 2017. Conversely, on 13 November 2019, pending the conclusion of the same investigation, the Authority asked the CSEA to suspend – on a temporary basis and subject to adjustment – any disbursements relating to the equalisation of the costs incurred by Acea Energia for 2018 for the purchase and dispatching of electricity intended for protected customers.

With Resolution no. 491/2019/E/eel the Authority closed the preliminary investigation by instructing Acea Energia and areti on the actions to be taken by the end of 2019. On 20 December 2019, Acea Energia informed the Authority that it had complied with the requirements.

In particular, as part of the investigation it emerged that Acea Energia applied the dispatching fees and the tariff components to cover general system charges to the users in VCS. However, ARERA specified that these components are not applied to foreign users. "As a result, Acea Energia was charged more for a quantity of electricity equal to that transferred to VCS" (see page 13 of Annex A to Resolution 491/2019/E/eel).

On the other hand, this happened because Acea Energia had not associated the electricity actually destined for the VCS with the export dispatching point, which was instead taken from another dispatching point referred to in the contract for withdrawal dispatching in force between Terna and Acea Energia used for customers supplied on the free market.

This conduct ceased as of 1 December 2019 as Acea Energia associated the corresponding withdrawal programmes to the export dispatching point at the electricity border with VCS.

Since at the same time the electricity withdrawn from the export dispatching point corresponding to the VCS Virtual Consumption Unit was destined to Italian protected customers, the Authority found that in the period 2009-2018 Acea Energia did not purchase from the Single Buyer the entire quantity of electricity destined for the protected service, the protected service being in part served from the export dispatching point corresponding to the VCS Virtual Consumption Unit. This conduct ceased on 1 January 2019.

Therefore resolution 491/2019/E/eel mandated:

- Terna, the relevant distribution companies and CSEA to recalculate the charges for the withdrawals by VCS by applying the criteria highlighted in the preliminary findings attached to the same resolution;
- the Director of the Sanctions and Commitments Department of the Authority to produce the documents resulting from the evidence found.

As a result of this, two sanctioning proceedings were initiated against Acea Energia and areti.

Pursuant to resolution 243/2012/E/com, following the postponements communicated by ARERA Acea Energia must submit its commitments by 9 June 2020. According to the aforementioned resolution, the approval of the commitments closes the sanction procedure without establishing an infringement.

In the unlikely event that the Authority intends not to approve the commitments and continue with the penalty procedure, based on the information available today the Company does not see any economic impact since it is believed that any penalty for the conduct identified in the aforementioned investigation would be offset by the amount owed by Acea Energia to the system by virtue of the application of dispatching fees and tariff components to cover general system costs. This receivable is expressly recognised by ARERA in Appendix A to resolution 491/2019/E/eel, as mentioned above.

OVERSEAS OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2019	31/12/2018	Change	% Change
Water Volumes	Mm ³	43	43	0	0.1%

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	48.5	38.6	9.9	25.6%
Costs	31.5	23.8	7.8	32.6%
EBITDA	16.9	14.8	2.1	14.3%
Operating profit/(loss) (EBIT)	7.7	7.8	(0.1)	(1.8)%
Average headcount	814	781	33	4.2%
Capex	7.0	6.6	0.4	6.6%
Net financial debt	(4.5)	4.1	(8.7)	n.s.

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Overseas Segment	16.9	14.8	2.1	14.3%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	1.6%	1.6%	0.0 p.p.	

The Area currently includes the water companies that manage the water service in Latin America. Specifically:

- Aguas de San Pedro (Honduras), 60.65% owned by the Group as of October 2016, when it was consolidated using the line-by-line method. The Company serves its customers in San Pedro Sula;
- Acea Dominicana (Dominican Republic) wholly owned by the Group, provides the service to the local Municipality known as CAASD (Corporation Aqueducto Alcantariado Santo Domingo);
- AguaAzul Bogotá (Colombia) of which the Group holds 51% is consolidated on the basis of the equity method with effect from the 2016 financial statements as a result of a change in the composition of the Board of Directors;
- Consorcio Agua Azul (Peru) is controlled by the Group which owns 25.5% and provides the water and discharge service in the city of Lima. It should be noted that on 13 January 2020 additional shares in the company were acquired from the outgoing shareholder Impregilo International Infrastructures N.V., increasing the Group's shareholding from 25.5% to 44.0% (+ 18.5%). Moreover, by virtue of the amendment of the shareholders' agreements, as of the same date the Group acquired control of the company;
- Acea Perú, wholly owned by Acea International (established on 28 June 2018), not yet operational. This company was established with the specific intent to manage the aqueduct service in the city of Lima;
- Consorcio Servicio Sur controlled by Acea International (50%), Acea Ato 2 (1%) and by local partners Conhydra, Valio and India (total 49%). The Consorcio was established on 5

July 2018 with the specific aim of managing the corrective maintenance service for the drinking water and sewerage systems of the Directorate of Services Sur of Lima (Peru).

This Segment closed 2019 with an EBITDA of € 16.9 million, an increase of € 2.1 million compared to the previous year, mainly from **Agua de San Pedro** (+ € 1.9 million). The first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower costs for rentals for € 0.2 million.

The average headcount at 31 December 2019 stood at 814 units and was up by 33 compared to the previous year, mainly due to **Acea Perú** (+ 38 units).

Investments in 2019 amounted to € 7.0 million, up by € 0.4 million compared to 2018, and were mainly attributable to **Agua de San Pedro** for the expansion and extraordinary maintenance of the water and sewerage network in the areas managed.

Net debt at 31 December 2019 amounted to - € 4.5 million, an improvement compared to 2018 of € 8.7 million. The changes are mainly attributable to **Acea International** (€ 9.4 million) for payments received from the Parent Company to finance the purchase of additional shares in **Consorcio Agua Azul**. This transaction was completed on 13 January 2020 through the purchase of an additional stake from the outgoing shareholder Impregilo International Infrastructures N.V., with which the Group increased its stake in the company from 25.5% to 44.0% (+ 18.5%). Finally, the first application of IFRS 16 contributed to the increase of financial debt by € 0.6 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

No significant events are reported during the period observed.

WATER OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data*	U.M.	31/12/2019	31/12/2018	Change	% Change
Water Volumes*	Mm ³	538	440	98	22.3%
Electrical Energy Consumed*	GWh	663	440	223	50.8%
Disposed Sludge**	kTon	134	96	38	39.4%
Gas Delivered**	m ³	60,641,789	0	60,641,789	n.s.
Gas no. of active users**	no.	62,068	0	62,068	n.s.
Net realised**	Km	325	0	325	n.s.
White Certificates**	no.	7,974	0	7,974	n.s.

* The values refer to fully consolidated companies (including Gori and AdF).

** The values refer to the newly consolidated Pescara Distribuzione Gas.

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	1,049.2	841.0	208.2	24.8%
Costs	544.3	408.0	136.2	33.4%
EBITDA	505.0	433.0	72.0	16.6%
Operating profit/(loss) (EBIT)	252.2	221.0	31.2	14.1%
Average headcount	3,094	2,551	543	21.3%
Capex	380.1	329.7	50.4	15.3%
Net financial debt	1,286.5	1,039.0	247.4	23.8%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Water Segment	505.0	433.0	72.0	16.6%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	48.4%	46.4%	2.1 p.p.	

EBITDA for the Segment stood at € 505.0 million at 31 December 2019, an increase of € 72.0 million compared to 2018 (+ 16.6%).

The increase is mainly due to the line-by-line consolidation of Gori (as from 8 November 2018) and AdF (whose line-by-line consolidation began from 7 October 2019), previously valued using the equity method, which accounted for € 53.9 million and € 13.5

million respectively. Also contributing to the increase was the consolidation of the company Pescara Distribuzione Gas (acquired in March 2019) for € 1.7 million. There were also lower costs for rentals following the first-time application of IFRS 16 for € 3.0 million, and finally a decrease in the contribution to EBITDA of water companies valued at net equity of € 3.7 million, as shown below:

€ million	31/12/2019	31/12/2018	Change	% Change
Publiacqua	16.3	15.8	0.5	3.1%
Acque Group	12.3	13.9	(1.6)	(11.3)%
Fiora	3.7	4.6	(1.0)	(21.0)%
Umbra Acque	2.1	1.1	1.0	86.7%
Gori	0.0	3.0	(3.0)	(100.0)%
Nuove Acque and Intesa Aretina	0.7	0.5	0.2	47.9%
Geal	1.2	1.0	0.2	20.4%
Total	36.2	39.9	(3.7)	(9.2)%

The quantification of revenues for the year deriving from the integrated water service is valued on the basis of the determinations made by the area governing bodies (AGBs) and ARERA. The item includes the estimate of the tariff adjustments relating to the so-called carry-over items for the year that will be invoiced as from 2021. In addition, starting from the second regulatory period the Authority has put in place incentive measures that provide the Managers with rewards related to “contractual quality” and “technical quality” based on certain objectives and quality standards.

It should therefore be noted that the amount of € 35.8 million (+ € 2.2 million), which represents the best estimate of the 2019 commercial quality award, and penalties for commercial quality and technical quality amounting to a total of € 0.5 million have been recorded among the revenues of **Acea Ato 2**. The following two tables summarise the status of the procedures for approving tariff proposals and the other revenues from the IWS, broken down by company and component.

The operating result was mainly affected by the increase in amortisation and depreciation (+ € 28.0 million), attributable to the full consolidation of **Gori** and **AdF** for € 25.9 million and € 9.3 million respectively.

The average workforce as at 31 December 2019 increased by 543 employees, mainly due to the change in the scope of consolidation related to **AdF** (+ 394 employees) and **Pescara Distribuzione Gas** (+ 12 employees). **Gori** also contributed to the change (+ 117 employees) with regard to the transfer of the “Regional Works” which includes the redeployment and efficient use of the related personnel in IWS activities.

Investments in the Segment were € 380.1 million and were mainly attributable to **Acea Ato 2** for € 277.8 million and € 33.2 million

to **Acea Ato 5**, while the consolidation of **Gori** and **AdF** contributed € 43.8 million and € 11.1 million respectively. The main investments in the period include those relating to the work carried out for the reclamation and expansion of the water and sewage pipes of the various Municipalities, the extraordinary maintenance of the water centres, the interventions on the treatment plants, works to reduce water leaks and improve relationships with users and the local region and on IT applications.

Net debt of the Segment at 31 December 2019 was € 1,286.5 million, a decrease of € 247.4 million compared to the previous year. This change is mainly due to: 1) **Acea Ato 2** for the lower liquidity resulting from the investments made during the year; 2) to the consolidation of **AdF** and **Pescara Distribuzione Gas** which contribute to a worsening of financial indebtedness for € 89.6 million and € 7.1 million respectively, partly offset by **Gori** which contributes to the improvement of the financial position for € 12.2 million. Finally, the first application of IFRS 16 contributed to the worsening of financial debt of the Segment by € 18.2 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

Lazio – Campania area

Acea Ato 2

The Integrated Water Service in Ato 2 Central Lazio – Rome started on 1 January 2003. The management of the Ato Municipalities took place gradually and the Municipalities currently managed are 79 compared to 112 of the entire Ato. The following table shows the overall situation in the territory managed, which has not changed compared to the previous year.

Acquisition situation	no. of Municipalities
Municipalities that declared they do not wish to be part of the Integrated Water Service*	7
Municipalities with Protected Entity	1
Municipalities fully acquired into the Integrated Water Service	79
Municipalities partially acquired, for which Acea Ato 2 provides one or more services	17
Municipalities to be acquired	8

* Municipalities with less than 1,000 inhabitants which had the right to express their will in accordance with paragraph 5 of Legislative Decree 152/06.

The Company provides the full range of **drinking water distribution** services (collection, abstraction, retail and wholesale distribution). Water is drawn from springs on the basis of long-term concessions. Water sources supply approximately 3,900,000 residents in Rome and Fiumicino and in more than 60 Municipalities in the Lazio region, via five aqueducts and a system of pressurised pipes. Three further sources of supply provide non-drinking water used in the sprinkler system of Rome.

As at 31 December 2019, Acea Ato 2 manages a total of approximately 6,842 kilometres of sewerage network, 709 sewerage pumping stations – of which 220 in the Roma Capitale area – and a total of 166 waste treatment plants – 32 of which in the Roma Capitale area – for a total quantity of treated water equal to 584 Mmc (data referring to managed treatment plants only).

The company manages the waste treatment system and pumping stations that serve the network and sewage trunk lines.

As of 31 December 2019, the six main purification plants had treated a volume of water equal to about 514 Mmc with a slight increase (equal to 5%) caused by the rainfall, compared to what was treated in 2018 (490 Mmc).

Following the regulatory changes of 2019, the Company implemented and continued all the activities that began in 2018.

Specifically, taking into account that some solids produced by the

managed plants do not comply with art. 41 of Italian Decree Law 109/2018 converted by Italian Law 130/2018, this company has continued with the transport of liquids within the authorised plants (as per art.110) and has started the disposal of solids through the stipulation of international contracts.

In February, with Determination R.U. 421 of 8 February 2019, the Metropolitan City of Rome, exceeding the ordinance issued in August 2018, authorised the treatment plant in East Rome to receive liquid waste (as per art.110).

With regard to analytical certificates for sludge and waste, in 2019 there was a slight increase in the number of analyses carried out by Acea Elabori (external certified laboratory) compared to the average for the same period in previous years.

With reference to the problem of seizures of wastewater treatment plants, note that the plants in Rome Nord and Botticelli were released on 13 May 2019 (Rome Nord) and 20 May 2019 (Botticelli) respectively.

As far as the Colubro treatment plant is concerned, following a request made by the Company, the Judicial Authority granted temporary release from seizure of the aforementioned plant in order to get it up and running and to carry out the consequent verification of the purification process.

With regard to the Carchitti treatment plant, the temporary release from seizure granted by the Authority remains in effect.

Acea Ato 5

Acea Ato 5 provides integrated water services on the basis of a thirty-year agreement signed on 27 June 2003 by the company and the Frosinone Provincial Authority (representing the Authority for the Ato comprising 86 Municipalities). In return for being awarded the concession, Acea Ato 5 pays a fee to all the Municipalities based on the date the related services are effectively acquired.

The management of the integrated water service in the Ato 5 region – Southern Lazio – Frosinone involves a total of 86 Municipalities (the management of the Municipality of Paliano still remains to be acquired, while the Municipalities of Conca Casale and Rocca D'Evandro are “outside the scope”) for a total population of about 490,000 inhabitants, a population served of 469,836 inhabitants, with a service coverage equal to approximately 97% of the territory. The number of users is 199,823.

The drinking water system comprises supply, abstraction and distribution plants and networks that use 7 main sources from which an equal number of aqueduct systems originate.

The sewerage and treatment system comprised a network of sewers and collectors connected to wastewater treatment terminals.

There are 219 sewerage pumping stations managed by the Company and 132 purification plants, of which 116 are biological plants, 14 are “Imhoff tanks” and 2 are percolators, including also the “inaccessible” and those outside Ato (Rocca d'Evandro and Conca Casale).

With regard to 2019, the digitisation of the networks of the managed area continued, with the inclusion of data in the GIS – Geographic Information System. According to the 2019-2022 plan for significant activities, as of 31/12/2019 5,496 km of the water supply network had been digitised (1,205 km of supply network and 4,291 km of distribution network).

With regard to the acquisition of the plants relating to the management in the Municipality of Paliano, in November 2018 the Council of State finally decided on the appeal filed by the Municipality of Paliano against the decision of the Regional Administrative Court no. 6/2018 – which upheld the appeal filed by the Company against the Municipality of Paliano, in order to obtain the annulment of the measure by which the Municipality opposed its refusal to transfer the service – with decision no. 6635/2018 rejected the appeal filed by the Municipality of Paliano and consequently upheld the decision handed down by the Regional Administrative Court of Latina, reaffirming that the safeguard regime granted to AMEA was “limited to a period of three years from the date of signing of the Management Agreement between AATO 5 and Acea Ato 5; this deadline therefore expired in 2006, so that, after that date, AMEA's management was to be considered without title”.

Since Acea Ato 5 has so far failed to initiate compliance proceedings with a view to verifying the voluntary compliance of the Municipality, which is suitable for preventing the possible appointment of an acting commissioner as has already happened in similar cases, a series of meetings have taken place at the Operational Technical Secretariat of AATO 5 Lazio Meridionale – Frosinone aimed at seeking an amicable settlement of the dispute and at initiating the preparatory activities for the transfer to Acea Ato 5 of the management of the IWS in the Municipality of Paliano. In this perspective, the Parties – with minutes of 26 November 2018 and 29 November 2018 – performed the update of the previous survey of networks and existing plants in the Municipality of Paliano, necessary for the management of the IWS.

To date, the parties are sharing the IWS handover report, which should also result in the waiver of pending litigation between them. With regard to the Municipality of Atina, whose management of the IWS has been transferred to Acea Ato 5 as of 19 April 2018, it should be noted that Municipal Council Resolution no. 14 of 17 April 2019, by which the Municipality resolved to “establish the sub-optimal territorial area called Atina Territorial Area 1, with ref-

erence to optimal territorial area no. 5, for the continuity of the autonomous and direct management of the water service pursuant to art. 147, paragraph 2 bis of Italian Legislative Decree no. 152/2006, declaring the Integrated Water Service “local public service without economic importance”.

AATO 5 appealed the above resolution before the Lazio Regional Administrative Court – Latina Section – also serving the Company and the Lazio Region.

As far as Acea Ato 5 is concerned, while the legal action taken by the AGB is suitable to protect the interests of the Company, it has deemed it appropriate to file suit.

With regard to significant events that took place during the year, it should be noted that:

Lazio Administrative Court appeal on termination of the Management Agreement

Resolution no. 7 of the Conference of Mayors of 13 December 2016 resolved to terminate the Management Agreement. On 26 and 27 June 2018, appeal documents were served, proposed by the Area Authority and the Municipality of Ceccano and other Municipalities by the Ato 5, against sentence no. 638/2017 of the Lazio Regional Administrative Court – Latina branch, by which the Administrative Judge upheld the appeal filed by the Company against resolution no. 7 of 13 December 2016, by which the Conference of Mayors resolved to terminate the contractual relationship with Acea Ato 5, annulling the measure. Such appeals do not present any arguments of particular novelty or relevance with respect to what has already been submitted for the examination of the Court of First Instance, nor have the appellants proposed an application for interim relief. In any case, the Company filed the formal documents for both disputes, for which as of today there is no information regarding the scheduling of the hearing.

Injunction order for payment of € 10,700,000 and counterclaim by AATO 5 for concession fees

With regard to the € 10,700,000 receivables for higher costs incurred in the 2003-2005 period, pursuant to the Settlement agreement of 27 February 2007, on 14 March 2012, Acea Ato 5 lodged an appeal for an injunction order concerning the receivables recognised by the AATO to the company.

Accepting the appeal, the Court of Frosinone issued Injunction Order no. 222/2012, enforceable immediately, notice of which was served to the Area Authority on 12 April 2012.

By notice dated 22 May 2012, the AATO sent notice of its opposition to the injunction order (Civil Judgement 1598/2012), requesting the cancellation of the order and, as a precautionary measure, the suspension of its provisional enforcement. Moreover, as a counter-claim, it submitted a claim for the payment of concession fees totalling € 28,699,699.48.

Acea Ato 5 appeared before the court in the proceedings against the injunction order, challenging the adversary's demands and in turn formulating a counterclaim for the payment of the entire amount of higher costs incurred by the Operator and originally requested, totalling € 21,481,000.00.

Following the hearing on 17 July 2012, the Judge – in an Order filed on 24 July – suspended the temporary enforcement of the injunction order, and postponed to a later date the discussion of the merits of the issue.

The judge also rejected the request for an order of payment of the concession fees submitted by the AATO. During the hearing on 21 November 2014, the judge withdrew the reservations on the motions for admission of evidence filed by the parties and fixed the hearing for the final statements on 15 November 2016. During the hearing, the judge granted the terms for the conclusions and replies and deferred the decision on the case. In sentence 304/2017, published on 28 February 2017, the civil judge revoked the injunc-

tion decree issued in 2012, rejected the subordinate re-conventional request by Acea Ato 5 and ordered the deferral of the case in the preliminary proceedings concerning the re-conventional request by the AATO as regards the payment of the concession fees. At the hearing of 17 November 2017, the Judge, having acknowledged the counterparty request, postponed the hearing to 27 February 2018. At the outcome of the aforementioned hearing, the new Judge who took charge of the case, having noted the discrepancies that emerged in the respective accounts of Acea Ato 5 and AATO 5, granted a postponement to 4 May 2018, inviting the parties to clarify the reasons for such discrepancies and specifying that if they could not the court would appoint an expert to do so. At this hearing there was a further postponement until 21 September 2018.

At this meeting, in light of the Conciliation Panel established on 11 September 2018 with AATO 5 – pursuant to art. 36 of the Management Agreement to which the question concerning the determination of concession fees was also referred, among others – the Parties asked the judge for a postponement, the hearing being scheduled for 15 February 2019, then postponed to 17 September 2019.

The appeal (Civil Judgement docket no. 6227/17) against the sentence of the Court of Frosinone, which revoked the Injunctive Decree of € 10,700,000 initially issued by that Court, must be considered in connection with this judgement on the assumption of the nullity of the resolution of the Conference of Mayors no. 4/2007 and the Transaction Act adopted by the Area Authority in violation of the public regulations requiring the identification of the financial coverage of the act itself.

The first hearing was automatically postponed to 11 May 2018. On this occasion the Court, having heard the respective positions of the parties, postponed the case to 20 November 2020 for the oral discussion and the ruling of the sentence pursuant to art. 281 sexies of the code of civil procedure.

The Company did not consider cancelling the receivable or setting aside any risk provisions for two reasons:

- the issue in question, which relates to the recognition of the amount owed by the Operator (of € 10,700,00.00) in connection with the 2007 settlement, the subject of sentence no. 304/2017 of the Court of Frosinone, appealed by Acea Ato 5 SpA to the Court of Appeal of Rome (RG no. 6227/2017), was referred to the Conciliation Board for further investigation, including legal matters;
- the legal assessments made by the lawyers illustrate, on the one hand, the validity of the appeal and, on the other hand, the fact that the nullity of the transaction does not per se determine the non-existence of the receivable.

The validity of the appeal and the decision not to cancel the receivable were further confirmed by the conclusions of the Conciliation Board, established by the Area Authority and the Operator, in accordance with the provisions of article 36 of the Management Agreement, in order to reach a settlement of the various disputes pending between the parties.

In its Conciliation Proposal sent to the parties on 27 November 2019 and currently being examined by the AATO 5 Conference of Mayors, the Conciliation Board has in fact, among other things:

- ascertained the existence of significant differences between the concession fees approved in the various tariff arrangements and the amounts to be paid to the Municipalities. In the opinion of the Board, the actual existence of such differences leads one to believe that Resolution no. 4/2007 of the Area Authority was based on credible elements, also found afterwards, where it identified the “savings on the concession fees to be paid to the Municipalities” (which could constitute the financial funding to pay a loan stipulated by the Area Authority) as the financial coverage for the payment to the Operator of the sums envisaged in the settlement. This conclusion, highlighting the plausibility of the sources of coverage identi-

fied by the Area Authority to finance the settlement, confirms the validity of the appeal filed by the Company against sentence no. 304/2017, by which the Court of Frosinone declared the nullity of Resolution no. 4/2007 of the Area Authority and of the settlement agreement precisely because of the alleged failure to identify the related financial coverage in violation of the disclosure regulations, since the reference to “unspecified savings on the concession fees to be paid to Municipalities” was not considered adequate and sufficient;

- considered that there are valid and grounded reasons to grant the Operator’s request for recognition of higher operating costs incurred in the three-year period 2003-2005 to the reduced extent agreed to by the parties in the settlement, thus confirming the existence of the corresponding receivable in the Company’s financial statements.

Updating of the concession fee

With resolution no. 1 of 26 March 2018, Conference of Mayors ordered that the payment of the instalments of loans taken out by Municipalities, from the second half of 2013 until the end of the Concession, shall be disbursed directly by the Manager. Consequently, with the tariff update ordered on 1 August 2018, by immediately implementing the provisions made by ARERA contained in the sanctioning measure DSAI/42/2018/ldr, with regard, among other things, to the fees relating to unmanaged Municipalities, the mortgage component of the Concession Fee was adjusted in 2019 by adding the amount of the same specified in the annex to aforesaid resolution no. 1 of 26 March 2018. No adjustment of the mortgage component was implemented for the years 2013-2017, as Resolution no. 1 of 26 March 2018 did not imply any change to the amount of the mortgage component approved in the various tariff arrangements. In addition, any recalculation of loan costs (MTp) must be approved by the Conference of Mayors and must be included in the Economic and Financial Plan (EFP) of the next tariff update in view of the fact that, even at the time of approval of the tariff update 2018-2019, approved by the Conference of Mayors on 1 August 2018, nothing was established regarding the fees for the above years. For the reasons set out below, the Company did not consider that the obligation to pay this difference to the Area Authority had failed, and therefore it did not reduce the provisions in its financial statements for concession fees:

- the aforementioned Resolution of the Conference of Mayors has made no provision for the difference;
- in compliance with the regulations in force, the quantification of the concession fees is the exclusive responsibility of the Area Authority and therefore any recognition of the difference (with consequent extinction of the relative obligation) can only take place following the revision of the tariffs for the years 2013-2017 and the relative Economic and Financial Plan (EFP) by the Area Authority;
- when reviewing the tariffs for the two-year period 2018-2019 and the related EFP, the Area Authority implemented the reduction in concession fees only as from 2018 (with a substantial reduction of about € 1,658 thousand in 2018), leaving those for the 2013-2017 years unchanged;
- for the 2013 financial year, the AGB had issued invoices to the Company for the difference between the concession fee resulting from the relevant tariff and the charges for the loans that the Operator had paid to the Municipalities based on the aforementioned Resolution;
- the exact quantification of the concession fees for the aforementioned years and the assessment of their reallocation and treatment for tariff purposes was an open issue for both parties, so much so that it was referred to the Conciliation Board established between AATO 5 and the Operator, in accordance with the provisions of art. 36 of the Agreement.

It should also be noted that since it is a so-called “pass-through cost” in the tariff definition, i.e. charged as a tariff without any economic return for the Operator (a sort of collection on behalf of third parties), its effect is substantially neutral in the Operator’s financial statements: it is recorded as revenue and at the same time and in equal measure as a cost. For this reason, even if the Company mistakenly did not fulfil its obligation to pay the difference and recognised out-of-period income as an adjustment to the amount due for the concession fee, it would have had to recognise out-of-period income of the same amount following a reduction in the adjustments for the years 2013-2017, with clear economic effects that are insignificant from both a statutory and fiscal point of view.

It should be noted that on 27 November 2019 the aforementioned Conciliation Board submitted to the Company and to the Area Authority a specific Conciliation Proposal, with an attached deed still to be signed. In these documents, the Conciliation Board has, among other things, put forward a proposal to reduce the tariff adjustments claimed by the Operator by the difference of € 12,798 thousand between the concession fees approved in the various tariff arrangements for the years 2013-2017 and the amounts to be paid directly to the Municipalities on the basis of Resolution no. 1 of 26 March 2018. This proposal for allocation to offset existing receivables confirms the Operator’s indebtedness of this difference, corroborating the Company’s decision not to release the related liabilities in its financial statements.

Conciliation Board with AATO 5

With regard to **relations with AATO 5**, the Company has tried to reach a settlement of the various disputes pending against the Area Authority, convinced of the need to put an end to a very long season of clear conflict between the Granting Body and the Licensee Company, culminating with the resolution passed by the Conference of Mayors of Ato 5 aimed at the termination of the Management Agreement that forced the Company to appeal to the Latina Regional Administrative Court that annulled the above resolution.

In this context, in recent years and especially during 2018 an enormous effort has been made – including organisational efforts – to reconstruct the relations between the Company, the Area Authority and the individual Municipal Administrations of Ato 5.

Similarly, the possibility of establishing a Conciliation Board with the Area Authority has therefore become concrete, with the aim of settling the main issues still in dispute by the parties.

In this regard, on 11 September 2018 AATO 5 and the Company signed report no. 1 in which the parties expressed their mutual willingness to open a Conciliation Board on:

- case pending before the Court of Frosinone, docket no. 1598/2012 on concession fees 2006-2011. This question consists in ascertaining that the concession fees for the period 2006-2011 have been paid in full: while Acea Ato 5 claims to have paid the entire amount due, the Area Authority claims that it is still owed more (€ 1,751,437.89). The dispute is the subject of a case pending before the Court of Frosinone;
- verification of the actual use of the sums paid by Acea Ato 5 to the Area Authority as a fee pursuant to art. 13 of the Integrated Water Service Management Agreement. In the meantime this matter has been substantially settled by the parties, given the recalculation of the concession fee;
- settlement of the dispute related to the 2007 transaction, which is the subject of judgement no. 304/2017 of the Court of Frosinone, appealed by Acea Ato 5 to the Rome Court of Appeal (docket no. 6227/2017). The first hearing of the appeal proceedings is scheduled for 20 November 2020, and Acea Ato 5 – even though it considered the above sentence to be incorrect and therefore appealed it – nevertheless pointed out that Acea Ato 5 did not in any way deny the existence of the receivable claimed by the Manager and therefore claims

the right to recover the receivable itself, also fearing further initiatives to protect the interests of the Company. The Operational Technical Secretariat has expressed its willingness to ask the Conciliation Board to study the Manager’s claim, even from a legal point of view;

- damage suffered by Acea Ato 5 as a result of delays in the delivery of services by the Municipalities of Cassino, Atina and Paliano;
- handover of the ASI and Cosilam plants;
- penalties applied by AATO 5 against the Manager and annulled by the Latina Administrative Court by judgement no. 638/2017;
- interest for late payment of concession fees by Acea Ato 5;
- reconstruction of the 2012/2018 concession fees and request for the Operator’s repayment plan to the Area Authority for the debt positions relating to the concession fee.

Two other issues were then referred for the assessment of the Board concerning the discounting of the 2006/2011 adjustments and the non-invoicing of the 2006/2011 adjustments due to the correction of the 2012 volumes.

Also in minutes no. 1 of 11 September 2018, the Parties shared the rules for appointing the Conciliation Board, specifying that:

- it shall be called upon to verify the possibility of an attempt at an amicable settlement between the Parties with respect to all and/or even some of the above matters;
- after an extensive investigation that must concern all the individual points under examination, the Conciliation Board must present the Parties with a proposal for conciliation;
- the Parties will be free to accept or reject the conciliation proposal presented by the Conciliation Board, i.e. to accept it in full or even only in part, without any obligation to give their reasons;
- therefore, the appointed Board will have the task of carrying out a preliminary activity on behalf of both Parties with respect to the matters entrusted to it, without prejudice to subsequent decisions that will be left to the individual Parties;
- the conciliation proposal presented by the Board and, more generally, the report and/or deeds drawn up by the Board may not be used in judicial proceedings by one Party against the other as a possible recognition of its own reasons and/or those of others;
- the appointed Board does not act as an Arbitration Board.

The Parties also shared the criteria for the appointment of the Board and, in particular, each Party appointed its own member.

The Chairman of the Conciliation Board was selected by the Prefect of Frosinone, at the joint request of the Parties, and was jointly appointed on 16 May 2019. The Board officially took office on 27 May 2019, thus starting the 120-day period within which it had to arrive at a proposal for an amicable settlement of the issues submitted for its assessment.

On 17 September 2019, the Conciliation Board announced that it had completed the preliminary work on all the items assigned to the roundtable. However, it noted that due to the number and complexity of the issues under examination, a considerable amount of work was required to prepare a document presenting a comprehensive and reasoned conciliation proposal.

The Conciliation Board therefore requested and obtained from the parties an extension of 30 days from 24 September 2019.

Following a detailed and in-depth investigation, the Conciliation Board prepared a draft of the Conciliation Proposal, presented to the Parties’ legal counsel at the meeting held on 11 November 2019.

At that meeting, the Parties invited the Board to draw up a draft of the Conciliation that would take into account the report illustrated in that meeting, as well as the proposals made by the Operator, to be submitted for examination and approval to the relevant Bodies. On 26 November 2019, the Conciliation Board submitted the final Conciliation Proposal to the Parties together with the draft of the Conciliation Deed.

On 4 February 2020, the Company informed the OTS of AATO 5 that on 19 December 2019 the BoD approved the Conciliation

Proposal formulated by the Conciliation Board and the draft of the Conciliation Deed between AATO 5 and Acea Ato 5 and that, moreover, the Chairman was given a mandate to sign the Conciliation Deed, confirming in particular the commitment to carry out interventions for a total amount of € 4,500 thousand without any tariff recognition, in conciliation and for the reasons set out above. As of today the Conference of Mayors has not yet been scheduled for final approval of the two documents.

However, in light of the conduct throughout the conciliation process, and in particular during the final meeting held on 11 November 2019 in which the Conciliation Board explained the Conciliation Proposal to the legal representatives of the parties and as the Company's BoD had already approved the related Conciliation Deed on 19 December 2019 and then communicated this decision to AATO 5 on 4 February 2020, the Company believed that as at 31 December 2019 an implicit obligation had already arisen for the commitments envisaged in the Conciliation Deed, and in particular for the aforementioned commitment to carry out interventions in the territory without any tariff recognition, having already created a valid expectation in the AATO 5 Area Authority and in the Municipalities of the territory that the Company intends to honour these commitments and bear the related charges. Based on the information available as at 31 December 2019, considering the approval of the Conciliation Deed by the Conference of Mayors to be probable and consequently also considering the related implied obligation to be likely, at the end of the year the Company decided to recognise a provision of this amount.

Criminal proceeding no. 3910/18

With regard to criminal proceeding no. 3910/18 r.g.n.r. of the Public Prosecutor in the Court of Frosinone, on 2 January 2019 a preventive seizure decree was issued on 18 December 2018 by the Judge for Preliminary Investigations at the Court of Frosinone as part of criminal proceedings no. 3910/18 r.g.n.r., pending for the alleged violation of art. 4 of Italian Legislative Decree no. 74/2000 (inaccurate declaration). Pursuant to the aforementioned provision, the preventive seizure of financial resources in the accounts held in the name of Acea Ato 5 up to a value of € 3,600,554.51 was ordered. On 11 January 2019, a request for a review was filed, whose discussion hearing was scheduled for 1 February 2019 before the Court of Frosinone, as a unified bench. At the outcome of the aforementioned hearing in the Council Chamber, the Court of Frosinone upheld the proposed re-examination request and, as a result, cancelled the preventive seizure decree, ordering the restitution to the person entitled thereto. Based on the aforementioned restitution order, the Company sent a formal request to the Single Justice Fund for the restitution of the sums released. As of today the process of returning the released funds has been completed.

ARERA sanctioning measure concerning IWS tariff regulation

With determination no. DSAI/42/2018/Idr of 21 May 2018, ARERA started a sanctioning procedure regarding the tariff regulation of the integrated water service, the result of the audit carried out by the ARERA in collaboration with the Special Energy Unit and the water system of the Guardia di Finanza from 20 to 24 November 2017 at the Company's offices.

On 4 July 2019, ARERA published Resolution 253/2019/S/IDR of 25 June 2019 imposing administrative fines on Acea Ato 5, pursuant to article 2, paragraph 20, letter c) of Italian Law 481/95, for a total amount of € 955,000.00 for violations alleged in Determination DSAI/42/2018/idr. On 16 October 2019, the Company paid the entire penalty imposed on it.

On 3 October 2019 the Company filed an appeal with the Lombardy Regional Administrative Court against the aforesaid measure to have it thrown out, and to have the amount of the fine reviewed. Moreover, following the submission of the appeal, the Company

sent a specific request to the Authority asking for details of the timing of the approval procedures for the 2016-2019 tariffs, as well as the 2018-2019 update.

With regard to the appeal, as of today there is no information as to the date of the hearing, nor has a request for withdrawal been filed, pending the communication of a notice of expiry.

AGCM sanctioning measure – Proceeding PS9918

On 5 July 2018, in implementation of the resolution adopted by the Italian Competition Authority on 27 June 2018, an audit took place at the registered office of the Company following the initiation of the proceeding pursuant to art. 27, para. 3 of Italian Legislative Decree no. 206 of 2005, as well as pursuant to art. 6 of the 'Regulation on preliminary investigations concerning misleading and comparative advertising, unfair trade practices, violations of consumer rights in contracts, unfair terms' (hereinafter Regulation). The proceedings were opened in response to reports made to the Authority by the Consumer Associations CO.DI.CI. and Federconsumatori Frosinone regarding alleged incorrect and aggressive behaviour towards consumers and small businesses by Acea Ato 5 SpA in the period January 2015-June 2018.

On 10 January 2019 a hearing was held at the AGCM – in response to a formal request formulated at the same time as the requests for information referred to in the provision of objective extension of the proceeding. During the aforementioned hearing, the Company highlighted the constant attention it had shown its consumers, implementing for this purpose a series of measures and improvements in the procedures concerning the management of the activities disputed by the Authority. Reaffirming what has already been fully explained in the feedback sent to the Authority, the Company provided further information and documentation regarding the activities implemented (collaboration with the OTUC, opening of the consumer counter, activities aimed at solving historical arrears) in a perspective of constant attention to consumer issues.

On 20 February 2019, the AGCM, with regard to the PS/9918 proceeding, announced that it had extended the deadline for the conclusion of the proceeding to 23 May 2019.

On 28 February 2019 the AGCM announced that it had extended the deadline for the conclusion of the preliminary phase of procedure PS/9918 – set at 20 March 2019 – with the simultaneous clarification of the high charges against the Company. In particular, the Authority abandoned some of the initial disputes, confirming instead that it had detected some critical issues concerning: 1) initiation of collection procedures pending complaint for the period prior to the corporate procedure of 2018; 2) consumption limitations, for the period prior to the change made in January 2019 to the procedure implemented by the Company with regard to the limitation period; 3) management of hidden water losses. On 20 March 2019 the Company filed a defence brief and supporting documentation.

On 4 July 2019, the Authority notified the Company of the sanctioning measure with a pecuniary administrative sanction totalling € 1.0 million was imposed. The Company made a specific addition to the financial statements. On 3 October 2019 the Company filed an appeal with the Lazio Regional Administrative Court – registered under docket no. RG 12290/2019 section I – against the aforesaid sanctioning measure, requesting its cancellation with precautionary suspension. In the Chamber of Council of 6 November 2019 to discuss the request for precautionary suspension, the Regional Administrative Court of Lazio issued Order no. 7223 with which it rejected the application for precautionary suspension.

The decision of the Regional Administrative Court does not address the individual grounds of the appeal, which will only be ruled on at the hearing, yet to be scheduled. In particular, according to the administrative judge "with regard to the extent of the financial penalty imposed and the feared consequences on the business activity, it does not appear to be extremely serious and urgent as per art. 119, paragraph 4 of the

Italian Criminal Code for the granting of the requested precautionary protection, also taking into account the fact that the claimant company is in any case entitled to file a request for payment in instalments”.

In view of the aforesaid decision, since the Company has the power to do so, on 3 December 2019 the Company submitted to the Authority a request for payment in instalments, which the Authority accepted on 21 January 2020. A hearing on the merits has yet to be scheduled.

Criminal proceeding no. 2031/2016

With regard to criminal proceeding no. 2031/2016 concerning the financial years 2015, 2016 and 2017, on 4 January 2019 the current Chairman of the Company was served with an invitation to appear in person subject to investigation and information of guarantee for alleged offences attributable to false financial statements and false corporate communications. This measure also affected the Chairmen of the Company and the representatives of the control bodies in office in those financial years. Investigations are still ongoing. See also the additional information contained in the paragraph “*Information on services under concession*” and with reference to the proceedings Italian legislative decree no. 231/2001 in the paragraph of this “*Report on Major Risks and Uncertainties*”. Moreover, with reference to additional complex cases related to legal controversies, filed or being filed, between Acea Ato 5 and the Environmental Authority, see the “*Update on primary legal controversies*” paragraph of this document.

Notice of IRAP assessment and tax audits

On 3 January 2019 notice was served by the Revenue Agency – Dir. Prov. of Frosinone – Audit Office of a notice of assessment for IRAP for the year 2013. The Company has lodged an appeal. On 3 July 2019, a hearing was held at the Frosinone Tax Commission. On 23 October 2019 sentence no. 475/1/2019 was filed by the Provincial Tax Commission of Frosinone rejecting the appeal filed by the Company against the administrative fine imposed by the Revenue Agency for violations ascertained by the Guardia di Finanza for 2013. It is the intention of the Company to challenge the aforementioned judgement and to lodge an appeal before the Regional Tax Commission.

The deadline for this action is six months from the date of filing of the judgement, therefore 23 April 2020.

During 2019, the Italian Tax Police also continued its audit of income taxes for the years 2014 to 2018.

On 31 December 2019 the parent company Acea SpA and the subsidiary Acea Ato 5 were served by the Inland Revenue – Dir. Prov. of Frosinone – Audit Office – of two notices of assessment for IRES for 2013 and 2014.

These notices of assessment are a consequence of the findings of the tax assessment reports drawn up on 25 October 2018 (mentioned above) and on 30 October 2019, in which the auditors of the Guardia di Finanza found:

- for the tax year 2013:
 1. undue decrease in income of € 10,703,757;
 2. positive income components not recorded and not declared for € 829,552;
 3. negative income elements unduly deducted for € 1,559,616.

With this tax assessment report, the points mentioned in numbers 2. and 3. are resolved, given that the critical points noted in the report and initially ascribed to the tax year 2013 had an impact on subsequent years;

- for the tax year 2014:
 - positive undeclared income components of € 18,800,000.

The Company appealed against these sanctions before the Provincial Tax Commission of Frosinone on 28 February 2020. Supported by the opinion of its tax advisors, the Company believes that there is a risk of losing the case in the “remote” tax proceedings.

With regard to the remaining findings relating to the 2015-2018 finan-

cial years, contested with the PVC of 30 October 2019 and against which no notice of assessment has been served to date, the Company, supported by its tax advisors, has made the necessary assessments regarding the related risk and has set aside a provision for tax risks.

Gori

The Company manages the Integrated Water Service for the entire territory of the “Sarnese Vesuviano” District (EIC definition) of the Campania Region (74 of the 76 Municipalities, given that the Municipalities of Calvanico and Roccapiemonte are managing their water services, not having yet ensured the start of IWS management by the Company) which covers an area of approximately 900 square kilometres with a population of approximately 1.47 million inhabitants.

A total of 4,941 km of water network is currently managed, consisting of 841 km of primary abstraction network and 4,100 km of distribution network, and a 2,418 km drainage system.

Gori currently manages 12 water sources, 118 wells, 214 tanks, 122 water pumping stations, 184 wastewater pumping stations and 9 waste treatment plants.

The Company provides integrated water services on the basis of a thirty-year agreement signed on 30 September 2002 by the Company and the Sarnese Vesuviano Area Authority.

Relations with the Campania Region and with Acqua Campania for wholesale supply

Following the definition and normalisation of relations between the Company and the Campania Region (as well as its concessionaire for collections Acqua Campania SpA), which took place at the end of the 2018 financial year, with regard to the transfer of the so-called “Regional Works” (i.e., some infrastructure of the IWS falling within the territory of Ato 3 and still managed by the Region, hereinafter referred to as “Regional Works”) to the Area Governing Body and, for it, to Gori, as well as to the regional supplies of “wholesale water” and “wastewater collection and purification services” for the period from 1 January 2013 to the second quarter of 2018, the Region, the EIC and the Company reached an overall agreement aimed at the complete implementation of the Integrated Water Service in the Sarnese-Vesuvian District Area within a framework of economic-financial equilibrium of the management for its entire residual duration and the pursuit of the following related objectives: 1) Gori’s assumption of the service’s management and, by way of concession and in accordance with the provisions of the current Management Agreement of the Ato 3 IWS, the assumption of the Regional Works and the consequent works to improve their efficiency, including the redeployment and efficient employment of the relevant personnel engaged in the IWS; 2) approval by the Campania Region of plans for the payment in instalments of the debt accrued by the Company for the wholesale supplies provided from 2013 onwards, and the concurrent resolution of the complex legal dispute that has arisen with respect to the payment for the regional “wholesale water” supplies and the regional “wastewater collection and purification” services; 3) the creation of conditions to facilitate Gori’s access to the credit market; 4) the commitment of the parties to the extent of their remit to restore/maintain the economic-financial equilibrium of the Ato 3 IWS if the need should arise. In fact, the overall agreement reached with the Region and the EIC allowed the company to subscribe a long-term loan with a pool of banks on 18 July 2019 with an availability period of 4 years, a ten-year term and a final maturity for repayment on 31 December 2029.

Update of the 2016-2019 Regulatory Framework of the Sarnese-Vesuvian District of the Campania Region

Preliminarily, it is clarified that the ARERA has determined: a first transitional tariff method for the years 2012 and 2013 (which entire-

ly replaced the previous “normalised method” referred to in Italian Ministerial Decree LL.PP. 1 August 1996), issued with resolution 585/2012/R/ldr (“Transitional Tariff Method” or “MTT”); a second water tariff method for the years 2014 and 2015 issued with resolution 643/2013/R/ldr (“Water Tariff Method” or “MTI”); a third and currently applicable water tariff method for the second regulatory period 2016-2019 implemented with resolution 664/2015/R/ldr, as amended by subsequent resolution 918/2017/R/ldr (“Water Tariff Method - 2” or “MTI-2”).

Based on the tariff method implemented by the Authority, the Area Governing Body is required to prepare the Regulatory Scheme for the period of reference, which is then approved by the Authority.

In fact, the Extraordinary Commissioner of the Sarnese Vesuvian Area Authority, in execution of the ARERA 664/2015/R/ldr resolution, prepared the 2016-2019 Regulatory Scheme with resolution no. 19 of 8 August 2016 and then updated it, in execution of the ARERA 918/2017/R/ldr resolution, with resolution no. 39 of 17 July 2018. With this last resolution: 1) the RCappr adjustment component was valued at € 216,948,037; 2) the Operator’s Revenue Constraint (“VRG”) for the years 2016 was recognised (VRG: € 167,958,694); 2017 (VRG: € 183,072,979), 2018 (VRG: € 197,001,101) and 2019 (VRG: € 206,352,671) as well as the corresponding “tariff multipliers” for the 2018 financial year (1.247505) and the 2019 financial year (1.309880); 3) it was decided to allocate the FoNI quota already envisaged for the year 2017 and not yet used to finance tariff reductions of a social nature; 4) the additional Water Bonus was established with the valuation of the OPsocial cost component for the years 2018-2019; 5) table no. 2 was updated relating to accruals, amortisation and separate loans for Municipalities of Ato 3. In addition, the 2016-2019 Regulatory Scheme updated with Resolution 39/2018 was prepared on the basis of a plan aimed at the full implementation of the IWS of the Sarnese-Vesuvian District that guarantees, concurrently with economic-financial equilibrium: (a) the social sustainability of the IWS tariff applied to users, (b) the investments necessary for the improvement of the service as well as (c) the recovery of accumulated tariff adjustments.

Refer to the entire contents of the paragraph “Service Concession Arrangements” also for information on the financial effects deriving from the conclusion of the recognition of equalisation measures.

Gesesa

The Company operates in Ato 1 Calore Irpino which promotes and develops the initiative for the Management of the Integrated Water Service in Municipalities in the Province of Avellino and Benevento. Currently, the Authority – governed by the Extraordinary Commissioner referred to in DGR no. 813/2012 and merged into the regional EIC at the end of 2018 – has not yet assigned the management of the Integrated Water Service (aqueduct, sewerage and treatment) to a single operator. Gesesa manages the Integrated Water Service in 22 Municipalities in the province of Benevento for a total resident population of about 123,000 inhabitants spread over an area of about 710 square kilometres with a water infrastructure of about 1,541 km, a sewerage network of 553 km and about 300 plants managed. The total number of user accounts amounts to about 57,000, for which 2019 consumption has been estimated at about 8 million cubic metres of water.

The sewerage service is provided to approximately 80% of users while the purification service reaches about 40% of users.

During 2019, the Company began to establish the foundations consistent with the resolutions of the Board for a new path of growth and development aimed at achieving strategic objectives that provide for company growth. In this regard, a capital increase operation was already approved to aggregate new operations with the direct assignment of the Integrated Water Service by new Municipalities, using an instrument that is given by the regulatory pro-

visions contained in Italian Legislative Decree 175/2016 containing the “Consolidated Law on companies in which the public administration participates”. Art. 4 of the aforementioned regulation allows Municipalities to acquire company shareholdings in activities producing a service of general interest, subject to the body’s verification of the economic convenience of the direct or externalised management of the service entrusted to private operators.

This gives the Company the opportunity to proceed with new acquisitions of IWS and therefore to continue its development in the territory falling under Ato 1, pending the identification of the single operator, implementing a management development that, upon reaching at least 25% of the population served, would establish the Company as an interlocutor able to request the direct awarding of the entire territory as Sole Manager.

With regard to the bi-annual updating of the 2018-2019 tariffs, the activity was conditioned by the taking over of the Ente Idrico Campano (hereinafter EIC) in the legal relations established by the Calore Irpino Area Governing Body as from 1 October 2018.

The Company prepared the 2016 and 2017 financial statements as well as the Works Programme for the preparation of the proposed tariff revision with the definition of the VRGs and Thetas for the years 2018-2019, reviewing the investment planning for the years 2018-2019, also taking into account the results of the audit of 16-20 October 2017 contained in ARERA determination no. DSAI/26/2018/IDR of 10 April 2018 concerning the initiation of proceedings for the adoption of sanctions and prescriptive measures concerning the tariff regulation of the Integrated Water Service.

At present, the 2018-2019 tariff proposal submitted on 22 May 2019 is in the process of being approved by the EIC and will subsequently be sent to ARERA for ratification.

As a result of the above, revenues were recognised on the basis of the VRG currently being approved by the EIC.

Tuscany – Umbria Area

Acque

The management agreement, which came into force on 1 January 2002 with a 20-year duration (expiry is now in 2031), was signed on 28 December 2001. In accordance with said agreement, the Operator took over the exclusive integrated water service of Ato 2, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of wastewater. The Area includes 57 Municipalities. In return for award of the concession, Acque pays a fee to all the Municipalities, including accumulated liabilities incurred under previous concessions awarded.

With Resolution no. 6/2018 of 22 June 2018 concerning the “Update of the tariff structure 2018-2019”, the Board of Directors of the Tuscany Water Authority modified, with the same tariff multipliers, the composition of the 2016 and 2017 tariffs approved by resolution AIT no. 32/2017 of 5 October 2017 providing for a remodulation of the recovery of tariff adjustments for approximately € 9.7 million in the period 2022-2023.

With the same resolution the Board of Directors of the Tuscany Water Authority approved the 2018-2019 tariff proposal, the update of the works programme, the updating of the economic and financial plan and the extension of the duration of the concession of service from the previous deadline of 31 December 2026 to the new deadline of 31 December 2031. On 9 October 2018 with Resolution no. 502/2018/R/Idr Arera approved the tariff proposal.

The new Tariff plan with the end of the concession on 31 December 2031, compared to the previous plan with the end of the concession on 31 December 2026, contains the forecast of greater investments in service infrastructure and more contained tariff increases.

Therefore, as a result of the new tariff proposal, the 2019 tariff multiplier was equal to 1.50%, whereas in 2018 it was equal to 5.39%.

Finally, it is noted that on 24 January 2019, with the submission of the required documentation, with the termination of the previous

loan and the related hedging contracts and with the stipulation of the new interest rate hedging contracts, the suspensive conditions were met and, therefore, the new loan agreement became effective. The new loan was stipulated with a pool of banks and envisages two lines of credit: 1) Term Line of € 200.0 million disbursed in a single use and with final single maturity of 29 December 2023 and, 2) RCF Line equal to € 25.0 million payable in one or more uses within the period of use and final maturity on 29 December 2023. This line must be used exclusively to meet the financial needs of the Company for its ordinary business.

At the same time the new loan agreements were entered into, 6 new interest rate hedging contracts were entered into. The new contracts envisage the Company's semi-annual payment of a fixed rate to the counterparties starting from 24 January 2019 and in correspondence with a payment by the counterparties to Acque of a variable rate.

Publiacqua

The management agreement, which came into force on 1 January 2002 with a twenty-year duration, was signed on 20 December 2001. On the basis of this agreement, the Manager receives in exclusive custody the integrated water service of the Ato 3 made up of all the public services for the collection, supply and distribution of water for domestic uses, sewerage and wastewater treatment. The Area includes 49 Municipalities, of which 6 managed via agreements inherited from the previous operator, Fiorentinagas.

In return for awarding the concession, the Operator pays a fee to all the Municipalities, including accumulated liabilities incurred prior to the awarding of the related contracts.

With regard to the new tariff structure, with resolution no. 29/2016 of 5 October 2016 the AIT approved the tariffs for the second 2016-2019 regulatory period (MTI-2) pursuant to the ARERA resolution no. 664/2015. With resolution 687/2017R/IDR ARERA approved the tariffs proposed by the Tuscany Water Authority on 12 October 2017. Following the approval of the new tariff structure envisaged by the ARERA Resolution no. 665/2017R/IDR (TICSI), Publiacqua has billed according to the new structure since August. Finally, with resolution no. 24 of 7 December 2018 the AGB approved the 2018-2019 tariffs. At the same time it approved the extension of the Company's concession until 2024, the Company began a market survey with the main financial institutions, aimed at verifying the availability and economic conditions to proceed with the disbursement of a medium/long-term bank loan aimed in part at extinguishing existing financial exposures and in part at supporting the investments provided for in the new approved Intervention Plan.

On 18 June 2019 the banks were invited to submit a binding offer on the basis of a term sheet. Following the offers received, on 31 July 2019 the Company signed the new loan for € 140.0 million divided among five lending banks. The **Base Line** must be used for the full repayment of the existing Loan stipulated on 30 March 2016 with BNL and Banca Intesa for the payment of the ancillary costs of the new Loan and for the requirements related to the realisation of the investments envisaged in the EFP, while the **Investment Line** will be used to fully cover the requirements for further investments envisaged in the EFP. Among the conditions precedent to the disbursement of the loan, the lending banks have requested ARERA's approval of the new Tariff Plan, including the extension of the concession.

AdF

Based on the agreement signed on 28 December 2001, the operator (AdF) is to supply integrated water services on an exclusive basis in Ato 6, consisting of public services covering the collection, abstraction and distribution of water for civil use, sewerage and wastewater treatment. The concession term is twenty-five years from 1 January 2002.

With regard to the update of the tariffs for the period 2018-2019, on 27 July 2018, based on the actual data collected referring to the

years 2016 and 2017 and the Investment Plan, the AIT approved the tariff revision proposal, setting the VRG and the Theta of the years 2018-2019 and also redesigning the entire tariff profile until the end of the IWS concession (Deliberation of the Executive Council of the AIT no.17/2018 of 27 July 2018). Following further analysis of the greater needs for AdF investments related to technical quality, with Resolution no. 10/2019 of 1 July 2019 the Board of Directors of the Tuscan Water Authority produced and submitted to ARERA a new tariff proposal with re-modulation of the 2031 deadline, which the Authority finally approved with Resolution no. 465/2019R/IDR of 12 November 2019, confirming the levels of the original 2018-2019 proposed theta.

With regard to the structured bank loan signed on 30 June 2015, during the year AdF initiated discussions with lending institutions in order to revise some conditions of its existing loan agreement.

In fact, at the end of the negotiations AdF obtained consent to modify the repayment terms starting from 2020 and to improve the financial conditions (spread on the Euribor equal to 1.9%), the latter supported by the issue of a guarantee by Acea to partially cover the payment obligations deriving from the contract. In this context, in view of the financial commitment required of the Parent Company Acea, the Shareholders agreed to review the existing Shareholders' Agreements, and consequently the provisions of the by-laws with regard to the governance of the Company in order to attribute greater management powers to the Private Shareholder. The direct consequences of these changes led to the transfer of the consolidation of AdF from equity valuation to full consolidation of the equity investment held indirectly by Acea through its subsidiary Ombrone.

Umbra Acque

On 26 November 2007 Acea was definitively awarded the tender called by the Area Authority of Perugia Ato 1 for selection of the minority private business partner of Umbra Acque SpA (concession expiry 31 December 2027). A stake in the company (40% of the shares) was acquired on 1 January 2008.

The company performed its activities in all 38 Municipalities constituting Atos 1 and 2.

The tariff applied to users for the year 2019 is the rate applied to users was determined by Resolution no. 489 2018R/IDR of 27 September 2018 with which ARERA approved the updating of tariff arrangements for the two-year period 2018-2019, previously proposed by the Assembly of Mayors of the AURI with Resolution no. 9 of 27 July 2018. Finally, we inform you that on 29 December 2018 the request to extend the duration of the assignment to 31 December 2031 pursuant to art. 5.2 and 5.3 of the Convention and Resolution 656/2015R/IDR.

Geal

The Company manages the Integrated Water Service in the Municipality of Lucca in accordance with the Management Agreements with the local authority expiring on 31 December 2025, updated during 2013 to take into account the memorandum of understanding signed with AIT on 29 November 2011 and in 2016 pursuant to ARERA Resolution no. 656/2015. With regard to tariffs, it should be noted that ARERA approved the plan for the four-year period 2016-2019 with resolution no. 726 of 26 October 2017 and approved the related update with resolution no. 387 of 12 July 2018, also incorporating the request made by GEAL for the recognition of the OpexQT component for € 180,000/year. According to this measure, tariffs for the last two years fell by 3.53% at the beginning of 2018 and remained unchanged until the end of 2019.

Progress of the procedure for approving the tariffs

The progress of the procedure for approving tariffs and the approval of the two-year update (2018-2019) of the IWS tariff provisions for the Group companies is shown below.

Company	Approval status (up to MT12 "2016-2019")	Biennial update status (2018-2019)
Acea Ato 2	On 27 July 2016, the AGB approved the tariff inclusive of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. The ARERA then approved them in Resolution 674/2016/R/idr, with some changes compared to the AGB's proposal; quality bonus confirmed.	The Conference of Mayors approved the tariff update on 15 October 2018. On 13 November 2018, the ARERA approved the tariff update with Resolution 572/2018/R/idr. The Conference of Mayors adopted the provisions of the ARERA resolution on 10 December 2018.
Acea Ato 5	Tariff proposal submitted by the Operator on 30 May 2016, with request for recognition of the $Opex_{qc}$. ARERA warned the AGB on 16 November 2016 and the EGA approved the tariff proposal on 13 December 2016, rejecting, among others, the request for recognition of the $Opex_{qc}$. Approval by the ARERA is awaited.	The Conference of Mayors approved the 2018-2019 tariff update on 1 August 2018. Currently approval by the ARERA is awaited.
Gori	On 1 September 2016, the Extraordinary Commissioner of the AGB approved the tariff with $Opex_{qc}$ as of 2017. Approval by the ARERA is awaited.	On 17 July 2018 the Extraordinary Commissioner of the AGB approved the 2018-2019 tariff update. Currently approval by the ARERA is awaited.
Acque	On 5 October 2017, the AIT approved the tariff with recognition of the $Opex_{qc}$. Approved by ARERA on 9 October 2018 (as part of the approval of the 2018-2019 update).	On 22 June 2018 the AIT Board of Directors approved the 2018-2019 tariff update and, at the same time, the request to extend the duration of the 5-year contract, that is until 31 December 2031. With resolution 502 of 9 October 2018, the ARERA approved the 2018-2019 tariff update.
Publiacqua	On 5 October 2016, the AIT approved the tariff with recognition of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. With resolution 687/2017/R/idr, on 12 October 2017 ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 7 December 2018 the AIT approved the 2018-2019 tariffs with the extension of the 3-year concession. Currently approval by the ARERA is awaited.
AdF	On 5 October 2016, the AIT approved the tariff with recognition of the $Opex_{qc}$. On 12 October 2017, with resolution 687/2017/R/idr ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	The AIT Board of Directors approved the 2018-2019 tariff update in the session of 27 July 2018. Pending approval by ARERA, the AIT Board of Directors also approved the application to extend the concession to 31 December 2031, submitted by the Company in April 2019 and approved at the Territorial Conference in June 2019. The updated tariff proposal was then presented to extend it to 2031, which in any case confirmed the tariff increase (theta) and the Guaranteed Revenue Constraint (GRC) for the years 2018 and 2019, already approved by the AIT with its resolution of July 2018. ARERA approved the two-yearly update (with a small correction of the recognised $Opex_{qc}$) and the extension of the concession with Resolution no. 465 of 12 November 2019.
Geal	On 22 July 2016, the AIT approved the tariff with recognition of the $Opex_{qc}$. With resolution 726/2017/R/idr, on 26 October 2017 ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 12 July 2018 ARERA approved the 2018-2019 tariff update proposed by AIT.
Crea Gestioni	Following Resolution no. 664/2015/R/idr, both for the Municipality of Campagnano di Roma (RM) and the Municipality of Termoli (CB), Municipalities where Crea Gestioni offers the IWS, neither the Granting Body nor the Area Authority of reference submitted a tariff proposal for the regulatory period 2016-2019, so the Company independently submitted tariff proposals. Currently approval by the ARERA is still pending.	The Company has submitted the data to the competent parties/AGB in order to update the 2018-2019 tariff. For the management of the IWS in the Municipality of Campagnano di Roma (RM), given the inaction of the designated parties the Company filed an application with ARERA in January 2019 for a tariff adjustment in 2018-2019, also revising the 2016-2019 proposal. ARERA has not yet pronounced or issued a warning to the AGB and/or to the competent parties. For the management of the IWS in the Municipality of Termoli (CB), with a resolution dated 17 December 2019 the Municipal Council of Termoli approved the alignment of the existing Agreement to the Agreement template, extending its expiry to 31 December 2021, and confirmed the tariff increase for 2018 and 2019, also revising the 2016-2019 proposal. Currently approval by the ARERA is therefore awaited.

(follows)

Company	Approval status (up to MTI2 "2016-2019")	Biennial update status (2018-2019)
Gesesa	On 29 March 2017 the Extraordinary Commissioner of Ato Alto Calore Irpino approved the tariff arrangement for the years 2016-2019 with resolution no. 8. Approval by the ARERA is awaited.	The Company submitted the documentation relating to the 2018-2019 tariff revision to the Area Authority, and the investigation by the AGB should be completed in early 2020 with the final approval by the Executive Committee of the EIC (Ente Idrico Campano).
Nuove Acque	On 22 July 2016, the AIT Shareholders' Meeting approved the rates.	On 22 June 2018 the Board of Directors of AIT approved the 2018-2019 tariff update. On 16 October 2018 with Resolution 520 ARERA approved the tariff update proposed by AIT.
Umbra Acque	On 30 June 2016, the AGB approved the tariff with recognition of the Opex _{sc} . The ARERA then approved them in Resolution 764/2016/R/idr dated 15 December 2016.	In its session of 27 July 2018, the AURI Meeting approved the 2018-2019 tariff update. The ARERA approved the 2018-2019 tariffs with resolution no. 489 of 27 September 2018.

Pending completion of the approval process, which is still in progress, the revenues recorded are determined on the basis of the tariff schemes previously approved by ARERA or by the respective Area Government Agencies, as better represented above. In this regard, on 5 February 2020 ARERA confirmed this approach, in particular "with regard to the proposals for the bi-annual update of the tariff arrangements for the years 2018 and 2019 sent by the area governing bodies pursuant to Resolutions 917/2017/R/idr and 918/2017/R/idr, but not yet affected by specific acts of approval by the Authority, it is clarified that the Authority will complete the investigations aimed at ascertaining the consistency of the relevant technical and tariff data as part of the checks on the specific regulatory schemes proposed for the third regulatory period (2020-2023) in compliance with the water tariff method MTI-3 referred to in Resolution 580/2019/R/idr. For the

two-year period 2018-2019, the tariff determinations adopted by the competent entity remain valid, which will be assessed by the Authority – as part of the quantification of the adjustment components referred to in article 27 of MTI-3 – when approving the new regulatory scheme". For more details on the matter, see the paragraph "Service Concession Arrangements".

REVENUES FROM THE INTEGRATED WATER SYSTEM

The table below indicates, for each Company of the Water Area, the amount of revenue for 2019 valued on the basis of the tariff calculations assumed by the respective AGB or ARERA. The data includes the adjustment of passing items, the FoNI component, the Opex_{sc} or the award as per art. 32.1, subsection a) of resolution 664/2015/R/idr.

Company	Revenue from the IWS (pro quota values in € million)	FoNI/Bonus (pro quota values in € million)
Acea Ato 2	593.3	FNI = 20.2 AMM _{FoNI} = 8.7 Premio = 35.9
Acea Ato 5	76.9	FNI = 7.0 AMM _{FoNI} = 3.4
Gori	189.1	-
Acque	73.3	AMM _{FoNI} = 4.7
Publiacqua	101.4	AMM _{FoNI} = 12.0
AdF	60.4	AMM _{FoNI} = 5.2
Gesesa	12.3	-
Geal	9.3	FNI = 1.2 AMM _{FoNI} = 0.6
Crea Gestioni	4.4	-
Umbra Acque	32.4	FNI = 2.6 AMM _{FoNI} = 1.5

ENERGY INFRASTRUCTURE OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2019	31/12/2018	Change	% Change
Energy Produced (hydro + thermal)	GWh	506	540	(34)	(6.3%)
Energy Produced (photovoltaic)	GWh	24	10	14	149.1%
Electricity distributed	GWh	9,849	9,792	57	0.6%
no. of Customers	N/000	1,641	1,629	13	0.8%
Km of Network	Km	30,627	30,704	(77)	(0.3%)

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	682.5	687.2	(4.7)	(0.7)%
Costs	290.6	326.5	(35.9)	(11.0)%
EBITDA	392.0	360.7	31.2	8.7%
Operating profit/(loss) (EBIT)	237.7	198.8	38.9	19.6%
Average headcount	1,354	1,387	(33)	(2.4)%
Capex	287.8	238.3	49.4	20.7%
Net financial debt	1,320.5	1,121.9	198.6	17.7%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Energy Infrastructure Segment	392.0	360.7	31.2	8.7%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	37.6%	38.7%	(1.0 p.p.)	

EBITDA at 31 December 2019 was € 392.0 million, an increase of € 31.2 million compared to 31 December 2018. The change in EBITDA is mainly due to **areti** for € 28.3 million, primarily attributable to the energy balance sheet (+ € 18.2 million) as a result of tariff updates, equalisation and higher investments, as well as higher capitalisation of personnel costs (+ € 6.5 million). As regards the energy balance, at 31 December 2019 **areti** injected 9,849 GWh into the network with a 0.6% increase compared to 2018.

The EBITDA for **Public Lighting** is equal to € 1.9 million, an increase of € 7.3 million compared to 31 December 2018 (when it was negative for € 5.4 million). In July 2019, the transformation of the functional lights envisaged in the agreement was completed, while work continued on the projects relating to the new activations requested by both Roma Capitale and third parties. There was a significant increase in activity on new projects (+ € 1.8 million) linked to a substantial reduction in external costs (- € 1.8 million). It should be noted that during 2019, 12,014 light fixtures were replaced in addition to the 170,556 already replaced at the end of 2018. Extraordinary maintenance and modernisation and safety activities agreed with Roma Capitale were carried out, thus creating 985 new lighting points.

Acea Produzione's EBITDA was € 38.6 million, down € 7.7 million on the previous year. The change is attributable both to lower production volumes and lower market prices. The change is also due to lower production volumes and higher gas purchase and consultancy costs, partly mitigated by the revenue from penalties and revenues from Energy Efficiency Certificates sold in the period.

The EBITDA deriving from the change in the scope of consolida-

tion for the acquisition of the photovoltaic companies amounts to € 3.6 million and concerns the acquisition of the photovoltaic companies during the second half of 2019. The installed capacity of the new plants is 28 MWp.

The first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower rentals for € 1.7 million.

The average workforce decreased by 33 units, primarily in **areti**.

The operating result was mainly affected by the release of a provision made in connection with the Gala deal for € 12.8 million, partly offset by higher amortisation and depreciation for the period (+ € 14.2 million), of which € 3.0 million for changes in the scope of consolidation (new photovoltaic companies).

Investments amounted to € 287.8 million, an increase of € 49.4 million mainly due to **areti** (+ € 47.2 million) and mainly refer to the renewal and upgrading of the MV/LV network and the development of ISTE projects (+ € 38.5 million), as well as work on primary and secondary cabins and meters. We also note the purchase of the Via Flaminia headquarters (€ 2.8 million). Intangible investments refer to projects for the re-engineering of information and commercial systems. This year the so-called "Resilience Plan" was implemented, which consists of interventions on substations and on the MV and LV networks.

Investments made by **Acea Produzione** amount to € 11.5 million (- € 3.4 million) and mainly concern plant revamping works for the Mandela and Tor di Valle and Montemartini hydroelectric power plants, static and functional upgrades of the tunnels deriving from the San Cosimato dam reservoir and the extension of the district heating network in the Mezzocammino district in the south of Rome.

Net financial debt stood at € 1,320.5 million at 31 December 2019, showing an increase of € 198.6 million compared to 31 December 2018. The effects are mainly due to the growing volume of investments, as well as to the dynamics of the operating cash flow and payout. The change in the consolidation area increased financial debt by € 60.0 million, while the first-time adoption of IFRS 16 contributed to an increase in financial debt of € 23.1 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

Gala

With Resolution 50/2018/R/eel of 1 February 2018, the Authority approved a mechanism for recognising charges otherwise not recoverable due to the failure to collect general system charges.

At 31 December 2019 the total receivables accrued by the Company amounted to € 73.7 million, including billed interest. Such interest was excluded from the mechanism for the reinstatement of general charges by Resolution 300/2019/R/EEL and subsequently readmitted to the mechanism by Resolution 495/2019/R/EEL.

By 31 January 2020 CSEA will prepare a method for adding the applications already submitted in order to also include the portion relating to interest on arrears invoiced in accordance with the initial provisions of art. 1.4, letter a), number 4) of Resolution 50/2018/R/EEL.

On 27 December 2019 Resolution 568/2019/R/EEL was also issued, which provides for the recovery of the portion relating to network tariffs similar to the model for the recognition of uncollected general system charges. In particular, taking into account the comments received during the consultation, it confirms access to the mechanism each year n if the amount of non-collectable receivables relating to network tariffs not yet covered – calculated considering the cumulative amount in the years 2016, 2017 and 2018 – exceeds 0.75% of the revenues allowed in 2018, with the application of a deductible equal to 10% of the total amount of non-collectable receivables. The first application of the mechanism is scheduled for 2020 with a request to be submitted during the year according to a method to be defined, and with a subsequent measure to be adopted by 30 April 2020. The Gala portion will amount to about € 11 million.

It should also be noted that with resolution no. 583 of 20 November 2018, the ARERA rejected the complaint presented by Gala Power Srl, a company of the Gala Group, regarding areti's refusal to stipulate a transport contract with it given the established existence of a single decision-making centre subsisting between Gala Power and its parent company Gala, in light of the significant debt exposure accrued by the latter with respect to areti. Gala Power appealed against the Authority's decision before the Lombardy – Milan Regional Administrative Court, Section I, judgement no. 1936 published on 2 September 2019 and not served. This judgement was appealed before the Council of State on 29 November 2019.

It should also be noted that with resolution no. 181 of 14 May 2019 ARERA rejected the complaint submitted by EEMS Italia SpA, also a Gala Group company, against areti's refusal to enter into a transport contract with that company, deeming the claim made by the complainant unfounded on the grounds that since it had not established any direct or indirect relationship with at least one end customer, it did not meet the mandatory condition laid down in the regulation for the validity of the transport contract. On 27 August 2019 EEMS Italia again requested to enter into a transport contract. In response to the request for clarification sent by the Company, EEMS Italia SpA filed a new complaint with ARERA on 5 December 2019.

Finally, it should be noted that with sentence no. 270 of 6 February 2019 the Lombardy Regional Administrative Court fully rejected the appeal filed by Gala SpA against ARERA Resolution

109/201/R/EEL of 6 March 2017 concerning guarantees for the collection of general electricity system costs.

Technological innovation projects

2G digital meter project

In an increasingly advanced technological and energy context, the “2G Digital Meter” project was launched by areti with the aim of replacing the first-generation electricity meter system with the 2G Smart Metering system in compliance with the requirements of ARERA resolution 306/2019/R/eel. In this regard, on 5 April 2019 areti launched the procedure for the selection of the supplier of the field equipment (meters and concentrators) and the related Central Purchasing System (Management Centre) which ended on 12 September 2019 with the publication of the award. Following the conclusion of the tender procedure, on 14 September 2019, the Request for Authorisation to Recognise Investments (RARI) was submitted to ARERA. The start of the mass installation plan is subject to the approval of the RARI, expected by March 2020. The installation of the concentrators will start in May 2020 and the mass replacement of the meters will start in October 2020. At the same time as the start of the tender procedure, areti initiated the re-engineering of the business processes impacted by the 2G Project preparatory to the adaptation of the application map and the needs of the new CG2G system. Tenders are currently under way for the procurement of services to install 2G concentrators and replace 2G meters.

Smart Grid Intelligence platform evolution (SGI – Electrical data)

During 2019, activities continued to optimise the integration of the SGI system with the source systems (SCADA, GIS, etc.) through the creation of appropriate data tools that allow the identification and correction of misalignments between the source systems.

An acquisition level of 99.3% and an entity integration level of 96.14% were achieved.

These tools have made it possible to improve and certify the quality of the data, thus increasing the quality of the output of advanced analysis, like the calculation of impact metrics on all elements of the network that is now available on 100% of the nodes/branches of the network.

These metrics have been used to support planning and network developments.

Algorithms for the precise estimation of electrical loads by secondary cabin nodes and MV branches have also been developed.

Appropriate procedures have been prepared to populate a database with data gathered from different source systems (TESS, GIS, STM) for all MV failures from July 2017. These data were used to build a statistical model of the failure rate of network elements. Appropriate procedures have been prepared to populate a database with the maximum daily and annual branch currents from July 2017. Finally, the usability of the monitoring and navigation tools made available to the user has been improved.

The technological upgrade of the platform is nearing completion, updating Netezza, Datastage and Cognos with the related migration of existing reports, as well as the installation of SPSS analytics.

San Saba project

The project consists in the redevelopment of a portion of the LV and MV networks in a public and private metropolitan setting and in the simultaneous preparation of a fibre optic network to support the electricity service. These new systems allow the use of technologically advanced equipment, above all aimed at guaranteeing greater flexibility in the manoeuvring and protection of the portions of the network supplying power to final customers, with the aim of improving the quality and continuity of the service provided. The joint construction of electricity and fibre optic networks makes

it possible to optimise authorisation and installation (sharing road licences, permits in private areas, excavations and restoration work) and provides a useful context for experimenting with new system engineering technologies.

DRONES project

With regard to the Drone Project, in 2017 the use of remote-controlled aircraft was experimented with for inspections of overhead power lines to detect partial discharges on overhead lines, the patent relating to the “Ultrasound Sound System” being filed on 6 June 2017. Further efforts were made to define solutions using lightweight drones for simplified mass inspection, and photogrammetry tests were carried out on overhead lines with lightweight fixed-wing drones. In particular, in 2019 detailed photographic surveys were carried out at the Acea headquarters for structural verification of the cornices, experiments with 3D reconstruction of buildings and participation in “Exercise 2018” with the Civil Protection Department, searching for missing persons.

A test was also prepared and completed with ENAC and ENAV for flight missions in BVLOS (Beyond Visual Line Of Sight) mode, i.e. long-distance flight without visual control of the vehicle. Finally, the land drone prototype (rubberised) was developed and released for automatic inspections in primary cabins and/or other sensitive sites. In the first half of 2019 data acquisition tests were carried out in preparation for final testing.

Finally, during H1 2019 a pilot experiment was launched with Acea Produzione for the radiometric thermography of the district heating network in order to identify the integrity of the pipelines. The activity was carried out using a lightweight drone with the support of the Pick-up (mobile laboratory).

New Secondary Cabin project

The New Secondary Cabin Project was launched in 2018, starting with design development.

During 2019 the first set of functions to be implemented in the RTU was defined, and the specifications were drafted for the production of the LV switchboards with latest generation switches that can be remote controlled by means of a serial bus used in the first prototypes.

The prototypes were tested in the laboratory and subsequently installed in four secondary booths to monitor their correct operation, both for the remote control aspect and for the operation of the new automatic reset on overcurrent trip.

At the same time the technical specifications for LV switchboards and RTU were issued. The tender for LV switchboards was awarded, and the tender for the new RTUs for the installations planned in 2020 was launched. A further 16 cabins have also been installed to complete the pre-production phase of the project and to prepare what is necessary for the mass installations in 2020.

FIBRE OPTIC project

During 2018, areti began technological scouting to identify the best telecommunications technology for the creation of a network with high reliability and speed that would allow connecting all the primary and secondary cabins in a smart grid.

The architecture of the new TLC network was defined in early 2019, which will allow areas to control and command all primary and secondary cabins, also allowing additional services useful for network management to be conveyed, and in the future will be able to promote the development of smart cities.

The TLC project provides for the creation of a high-speed and reliable back bone network that will bind all primary cabins to a small part of secondary cabins. These will constitute the main framework of the network – consisting of secondary fibre optics connecting all secondary cabins and relevant points for the power grid – from which will be launched all the smart grid services,

followed later by smart city services. This network structure will ensure security and reliability in the transmission of information between the centre and the periphery useful to allow the proper operation of Operation Technology systems and network management systems, also the remote control of equipment installed in secondary cabins and, where possible, the measurement points and other types of sensors in order to convey to the central systems all the information acquired through sensors and field equipment.

Electric recharging and storage systems

The project involves the construction of new structures for recharging the company’s fleet of electric vehicles in the company car park in Piazzale dei Partigiani (Acea Car Park) (the recharging system was completed in 2018). The project will also include a photovoltaic generation plant and a storage system. The energy produced will be stored through the reuse of equipment previously installed for experimental purposes at CP Raffinerie.

The design for the construction of the photovoltaic generation system was completed and the process is under way for the outsourcing of the reuse of the CP Raffinerie storage system and the installation of a new storage system at the car park in Piazzale dei Partigiani.

Public Lighting

As at 31 December 2019, 12,000 transformations were carried out (for a total of 182,556 transformations), completing what had been envisaged in the LED Plan. Extraordinary maintenance and modernisation and safety activities agreed with Roma Capitale were also carried out, thus creating 3,110 new lighting points.

Production of electricity

The **Acea Produzione** production system is currently constituted by a group of generation plants, with an overall installed power of 226.6 MW, comprising five hydroelectric plants (three in Lazio, one in Umbria and one in Abruzzo), 52 photovoltaic plants (with an installed capacity of 8.6 MWp), two so-called mini hydro plants, Cecchina and Madonna del Rosario, two thermoelectric power stations, Montemartini and Tor di Valle, the latter consisting of a modern high-efficiency cogeneration plant, replacing the previous combined-cycle plant. The new plant consists of two high-efficiency methane gas powered engines each with an electrical power of 9.5 MW, for a total of 19 MW, as well as three supplemental boilers and 6 storage tanks. In the current configuration, in addition to selling electricity to the market during the most profitable hours, the plant provides electricity in SEU to the total electricity users of the adjoining Rome South Treatment Plant and the thermal energy necessary for the supply of district heating service in the districts of Torrino Sud, Mostacciano and Mezzocammino in the Municipality of Rome.

In 2019, the Company generated a volume of 516.1 GWh through the directly owned power plants. During the period, the Company’s production was subdivided into the portion related to hydroelectric plant production of 417.9 GWh, the share of production from mini-hydro plants of 2.2 GWh, the share of thermoelectric production of 85.1 GWh and the portion related to photovoltaic production of 10.9 GWh. The Company’s production mix is mainly from renewable sources with a share of “green” production equal to about 90% of the total. In addition, about 60% of total production is incentivised following investments in hydroelectric power plants or participation in the so-called “feed-in tariff” for the photovoltaic segment.

With regard to district heating, the Company, through the cogeneration module of the Tor di Valle power plant, supplied heat to the Torrino Sud and Mostacciano districts (located in the south of Rome) for a total of 66.75 GWht, for a total of 3,406 utilities served (259 condominiums and 3,147 real estate units).

Co-generation

The operational management of **Ecogena** focuses mainly on three areas: 1) consulting in the Esco sector and offering services related to obligations to increase the energy efficiency of third parties (inside or outside of the Acea Group); 2) the supply of energy service through the management of cogeneration (or trigeneration) plants and district heating networks and the sale of energy produced to customers; and 3) the coordination of Group companies with regard to energy efficiency projects.

The Company's production system is made up of a set of cogeneration plants, combined with district heating networks, for a total of 5.0 MW of installed electric power in Umbria and Lazio.

The production of thermal and refrigeration energy is increasing compared to previous years, while there was a slight overall decrease in electricity production. As at 31 December 2019, Company achieved a production volume of around 14.3 GWh (electricity), 28.7 GWh (thermal) and 10.5 GWh of refrigeration.

Also for 2019, the Company requested CAR/CB (High Yield Co-generation) qualification of all the plants managed, issuing the TEEs for 2018.

With regard to Europarco's trigeneration plant, the expansion of the plant has almost been completed, doubling the cooling capacity installed in the plant with a relative increase in electricity and the addition of a third boiler.

Ecogena also started work on improving the energy efficiency of the air conditioning system of the Acea data processing centre (Cedet), which is scheduled to be completed in February 2020.

In 2019 Ecogena collaborated with Acea Innovation in the electric mobility sector, contributing with the first six installations of charg-

ing stations for electric vehicles in preparation for the pilot project for the launch of an electric carsharing service within the Group.

Moreover, in line with the Acea Group's mobility plan for the period 2020-2023, the Company is finalising an agreement that qualifies it to operate as system integrator of Acea Innovation (Charge Point Operator).

Ecogena has also started scouting to identify potential partners and customers for energy efficiency initiatives, such as renovation of building exteriors to save energy (so-called thermal cladding).

Specifically, following a market analysis of the regulatory instruments known as "Ecobonus and Sismabonus", an internal collaboration with Acea Energia was initiated to identify and process commercial opportunities in this sector.

Also during 2019, Ecogena approved the "Saccir" operation that will enable the acquisition of additional cogeneration plants at third-party industrial/directional facilities (Klopmann and Kordenpharma) with a capacity of over 5 MW.

Finally, Ecogena has earned the following management system certifications: Quality ISO 9001:2015, ESCO UNI CEI 11352:2014 and Safety ISO 45001:2018. During 2019 it also started the ISO 50.001:2018 (Efficient Energy Management) certification process.

New Photovoltaic acquisitions

It should be noted that during H2 2019, in line with the Business Plan, the Acea Group began operations in the photovoltaic market with the establishment of two new companies, Acea Solar for the development of greenfields and Acea Sun Capital for the acquisition of plants. As at 31 December 2019 there were 13 companies acquired for a total installed capacity of approximately 28 MW.

ENGINEERING AND SERVICES OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2019	31/12/2018	Change	% Change
Technical-professional verification	Number of firms	349	226	123	54.4%
Worksite inspections	Number of inspections	12,481	11,270	1,211	10.7%
Safety Coordination	CSE Number	225	211	14	6.6%

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	79.0	74.1	4.9	6.6%
Costs	66.0	56.1	9.9	17.7%
EBITDA	13.0	18.0	(5.1)	(28.1)%
Operating profit/(loss) (EBIT)	10.5	15.5	(5.0)	(32.1)%
Average headcount	281	265	15	5.8%
Capex	1.8	1.6	0.2	13.6%
Net financial debt	6.7	(13.3)	20.0	(150.6)%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Engineering and Services Segment	13.0	18.0	(5.1)	(28.1)%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	1.2%	1.9%	(0.7 p.p.)	

The Segment closed 2019 with EBITDA of € 13.0 million, a decrease of € 5.0 million compared with the previous year, mainly attributable to **Acea Elabori** (- € 5.8 million) as a result of the increase in service costs as well as the transfer of part of the business to ACE Ato 2, which took place during the first half of 2019, partly offset by **Ingegnerie Toscane** (+ 0.7 million). The Segment also includes the company **TWS** which recorded an EBITDA of € 0.6 million, in line with the previous year.

The first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower rentals for € 0.5 million.

The average workforce as at 31 December 2019 stood at 281 employees, an increase of 15 compared to 31 December 2018 attributable to **Acea Elabori** (+ 27 employees) partly offset by **TWS** (- 11 employees). Investments amounted to € 1.8 million and mainly refer to the purchase of equipment for the Grottarossa laboratory by **Acea Elabori** and investments in IT systems.

Net financial indebtedness as at 31 December 2019 was € 6.7 million, a worsening of € 20.0 million compared to 31 December 2018, mainly due to **Acea Elabori**. The change is essentially due to the dynamics of operating cash flow. The first application of IFRS 16 contributed to the increase of financial debt by € 1.0 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

Acea Elabori

Laboratory activities

The Acea Elabori laboratory provides analytical services on different environmental matrices linked to the prescriptions of the reference laws.

In 2019, as part of the analytical activities carried out on water intended for human consumption, analytical services were performed on 12,359 samples and 455,071 analyses were carried out against the 451,365 analyses for 2018. With reference to the checks carried out for wastewater (sewage and treatment systems managed by Group Acea), 12,608 samples were analysed for a total of 251,132 analyses (10,719 samples and 179,197 analyses in 2018).

Engineering activities

Acea Elabori supplies engineering services to the companies in the Water Segment, in particular Acea Ato 2 and Acea Ato 5.

In recent years, the company has consolidated the development of engineering activities in other Energy Infrastructure and Environment Segments of Acea SpA as well, with the design and direction of works for the valorisation of waste and the production of hydroelectric and thermoelectric energy and related “specialist and support” activities.

Also relevant is the Company’s commitment to the Environmental Impact Study drawn up on behalf of Acea Ato 5 to obtain, through the EIA procedure, an environmental compatibility assessment of the upgrading and adaptation of the “La Moletta” purification plant in the Municipality of Veroli.

In 2019, the design of the remediation/extension of the water and sewerage networks on behalf of Acea Ato 2 was also developed to support the activities planned under the Single Network Maintenance Contract.

Research and innovation activities

Acea Elabori carries out research and innovation in the water, environmental and energy sectors and develops technical consulting and applied research projects for the companies of the Acea Group, aimed at technological-digital innovation, process optimisation and recovery of materials and energy with a focus on the circular economy and sustainable management, also making use of framework agreements with the scientific community and national and EU funded programmes.

During the year the Unit’s mission was revisited following the consolidation of the District Metering and Leak Search (internalised in April 2019 by Acea Ato 2 and Acea Ato 5) and the transfer of activities, now consolidated in the methodological application approaches (functional verification modelling and hydrogeological studies), which have become an integral part of the specialised services provided by Acea Elabori in the field of network and plant design.

Finally, the ACEASMARTCOMP Project was prepared with the invaluable support of the University of Tuscia and Enea, targeting the logic of the Waste Transition and proposing a new model of organic waste management, from large plants to diffuse waste management. The development of the project, which will make the Company Organic Waste Free as early as 2020 and allow it to patent the system that will then be industrialised, has required extensive development and involved internal and external expertise from many different areas.

TWS

The main activity of the Company is the construction and renovation of works instrumental to the operation of the Integrated Water Service and in particular of water treatment plants – drinking and waste water – as well as design and engineering services related to the activities of plant construction.

In 2019 work continued on the construction contracts acquired on the market prior to the Company’s entry into the Acea Group and at the same time the gradual implementation of works for the companies of the Group – specifically Acea Ato 2.

Intra-group activities constitute the new mission of the Company’s business, as it can acquire orders from the market to an extent not exceeding 20%, in accordance with regulatory requirements.

Based on the Framework Agreement with Acea Ato 2, a number of orders continued to arrive in 2019 resulting from the identification of occasions when TWS’s specific expertise could be useful for solving management problems.

In particular, tasks have been formalised with respect to a particular need of Acea Ato 2, namely to analyse, design and implement the restructuring of treatment plants, in particular for the acquisition of the Water Service from Municipalities. These plants are sometimes in critical situations, and it is therefore necessary to carry out an assessment to identify and implement the best solutions capable of restoring conditions of purification effectiveness and management efficiency in the generally tight schedules agreed to with the Municipalities in charge at the time of acquisition.

Ingegnerie Toscane

The main activity of the Company is the conception and development of projects aimed at the completion of works, understood in the traditional sense of the term: “design, construction supervision, safety coordination, etc.”.

These activities are complemented by advanced engineering services, carried out in close relationship with the employees of the companies that manage the operational functions of the water service, developing and expanding on the knowledge acquired during management to create the conditions for inspiring innovation in the water sector. In this sense it can be said that the added value of the conception and implementation of a work (or of a new strategy) lies precisely in the extensive knowledge of functional and operational problems that cannot be separated from a strong “working” link between the technicians and the Water Service Operators. 2019 saw a strengthening of the traditional engineering services (design, supervision and safety coordination in the design and execution phases of the works) which will presumably assume greater weight within the services provided by the Company, also as a result of the greater investments of the companies managing the Integrated Water Service, which are the main clients of the works design.

CORPORATE

OPERATING RESULTS AND FINANCIAL POSITION FOR THE YEAR

Operating results and financial position

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	142.6	129.5	13.1	10.1%
Costs	148.1	164.4	(16.3)	(9.9)%
EBITDA	(5.6)	(34.9)	29.4	(84.1)%
Operating profit/(loss) (EBIT)	(29.4)	(6.6)	(22.8)	n.s.
Average headcount	668	663	5	0.8%
Capex	21.7	10.0	11.7	116.3%
Net financial debt	250.4	236.4	14.0	5.9%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Corporate Segment	(5.6)	(34.9)	29.4	(84.1)%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	(0.5)%	(3.7)%	3.2 p.p.	

Corporate closed 2019 with a negative EBITDA of € 5.6 million (+ € 29.4 million compared to 31 December 2018). The variation is due to the combined effect of several phenomena: 1) the recognition of out-of-period income of € 16.2 million as a result of the decision of the Regional Administrative Court to annul the fine imposed by the AGCM served on 8 January 2019 and against which an appeal was filed and which in 2018 was among the costs; 2) the reduction in operating costs for Information Technology, 3) the increase in personnel costs only partially offset by higher capitalisation. Moreover, the first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower rentals for € 4.8 million.

The average workforce at 31 December 2019 stood at 668 and was slightly up compared to the previous year (663 employees).

Investments amounted to € 21.7 million and, compared to 2018 increased by € 11.7 million. Investments mainly refer to IT developments and investments in the company offices.

Net debt at 31 December 2019 amounted to € 250.4 million, a drop of € 14.0 million compared to the closure of 2018. The worsening of financial indebtedness was affected by the payment made to Acea International to finance the further purchase of shares in Consorzio Agua Azul for € 8.7 million, the acquisition of the equity investment in Pescara Distribuzione Gas, the remainder of the 2018 dividends not yet paid for € 77.1 million and the first-time applica-

tion of IFRS 16 which generated a decrease of € 16.0 million. Net financial indebtedness also derived from the requirements generated by changes in working capital.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

Acea and the companies Alma C.I.S. Srl and Mediterranea Energia Soc. Cons.a.r.l., having obtained approval from the Municipality of Pescara, on 18 March 2019, completed Acea's acquisition of 51% of the share capital of the company Pescara Distribuzione Gas Srl, a business engaged in the distribution of methane gas in the Municipality of Pescara.

It should also be noted that on 25 June 2019 with start date of 4 July 2019 Acea set up Acea Innovation Srl, which has the objective of researching innovations and start-ups to start experimental projects in order to apply innovative ideas to real cases, together with Group companies, as well as some collaborative initiatives in funded projects.

Finally, it should be noted that on 17 October the Lazio Regional Administrative Court definitively ruled on the appeal filed by Acea concerning the fine of € 16.2 million imposed for anti-competitive conduct in the electricity sales market, thereby completely annulling the penalty measure.

SIGNIFICANT FACTS OCCURRING DURING THE REPORTING PERIOD

Acea SpA AGCM Antitrust Authority Order – Proceeding no. A 513

On 8 January 2019, the Acea Group was notified of an order of the Italian Antitrust Authority with an administrative fine of € 16.2 million against Acea SpA, Acea Energia SpA and areti SpA, jointly and severally among them, with reference to proceeding no. A 513 for abuse of a dominant position in the electricity sales market, which the Acea Group challenged at the Lazio administrative court.

Acea SpA Completion of the acquisition of 51% of the share capital of the company – Pescara Distribuzione Gas

On 18 March 2019 Acea and the companies Alma C.I.S. Srl and Mediterranea Energia Soc. Cons.a rl, having obtained approval from the Municipality of Pescara, completed Acea's acquisition of 51% of the share capital of Pescara Distribuzione Gas Srl, a business engaged in the distribution of methane gas in the Municipality of Pescara.

Acea SpA The Board of Directors approves the 2019-2022 Business Plan

On 2 April the Board of Directors approved the 2019-2022 Business Plan.

Acea SpA The Shareholders' Meeting of Acea approves the Financial Statements as at 31 December 2018 and approves the payment of a dividend of € 0.71 per share. Appointment of the Board of Statutory Auditors and a Director

On 17 April 2019 the Acea SpA Shareholders' Meeting approved the Financial statements and presented the Consolidated financial statements at 31 December 2018.

The Shareholders' Meeting also appointed the new Board of Statutory Auditors, defining the fees of the same. The members of the new Board of Statutory Auditors are Maurizio Lauri, Chairman, and Pina Murè and Maria Francesca Talamonti as standing auditors. The Shareholders' Meeting also appointed the lawyer Maria Verberna Sterpetti to the Board of Directors.

Acea SpA Successful placement of a non-convertible bond issued under the EMTN Programme for a total of € 500 million over 9 years

Following the Board of Directors' resolution of 6 May 2019 and the completion of bookbuilding, on 16 May 2019 Acea SpA successfully completed the placement of a non-convertible bond loan for a total principal amount of € 500 million, maturing on 23 May 2028 and at a rate of 1.75%, under the € 3.0 billion Euro Medium Term Notes (EMTN) programme, with the Base Prospectus as last amended on 18 July 2018 and subsequently supplemented on 15 May 2019 (the "Bonds"). The Bonds are intended exclusively for institutional investors in the Euromarket. The issue was successful, receiving requests equal to 3.75 times the amount of the Bonds offered, by investors of primary rank and representative of many geographical areas.

Acea SpA Fitch Ratings confirms Acea's "BBB+" rating and "stable" outlook

On 16 May 2019 Fitch Ratings confirmed its Long-Term Issuer Default Rating (IDR) for Acea of "BBB+" with "Stable" outlook, and the Short-Term IDR of "F2". The Long-Term Senior Unse-

cured Rating of "BBB+" was also confirmed. The opinion reflects Acea's strategic focus on regulated activities and the positive results achieved to this point.

Acea enters the plastics treatment sector

On 4 July 2019 Acea SpA, through its subsidiary Acea Ambiente, finalised an agreement with DE.CO.RO. srl, a company of the Dentis Recycling srl Group, for the acquisition of 90% of the share capital held in the company Demap srl, owner of a plastic treatment plant with an authorised capacity of 75,000 tonnes per year. The plant is located in the province of Turin and affiliated with the Corepla Consortium, and since 2004 has been engaged in sorting and recycling plastic and plastic/metal packaging from separate urban waste collection, particularly in Valle d'Aosta and Piedmont.

Acea SpA Update of the EMTN Programme Ceiling

On 15 July 2019, Acea SpA completed the update of its Euro Medium Term Note Programme (EMTN) of bond issues, filed with the Luxembourg Stock Exchange and reserved for institutional investors. With this update Acea SpA increased the ceiling of the Programme up to € 4 billion, signing the documentation with 15 dealer banks.

Acea SpA The Acea Group returns to growth in the renewable energy market – acquires photovoltaic plants with an installed capacity of 25MWp

During the month of July, Acea completed acquisitions of photovoltaic plants incentivised by the Feed-in tariff for a total installed capacity of approximately 25 MWp, reaching 50% of the plan target ahead of schedule.

The operations have an Enterprise Value of approximately € 75 million and will contribute to an increase in the Group's EBITDA of approximately € 11 million on an annual basis.

The most significant portfolio refers to the acquisition of 65% of the share capital of seven vehicle companies owning 18 photovoltaic plants, with a total installed capacity of about 20MWp, owned by the Belenergia Group. The other photovoltaic systems will be acquired 100%.

Acea Group – Gori financing

On 23 July 2019, the structured long-term financing operation of € 80 million in favour of the subsidiary Gori, a company of the Acea Group, was successfully concluded. The loan, granted by UBI Banca, Intesa Sanpaolo, MPS Capital Services Banca per le Imprese, Banco BPM, Banca del Mezzogiorno – MedioCredito Centrale, Banca di Credito Popolare di Torre del Greco and Banca IMI as agent, together with the loan of € 20 million granted by the Parent Acea, represents the most important project-based structured finance operation in the integrated water service sector in Campania.

Acea SpA Moody's confirms Acea's "Baa2" rating and "stable" outlook

On 9 August 2019 Moody's Investors Service confirmed Acea's "Baa2" Long-Term Issuer Rating and the Senior Unsecured Rating. Moody's also confirmed the "(P)Baa2" rating of Acea's EMTN Programme. The outlook remains "stable". The rating agency's opinion reflects the positive results achieved by Acea and the Group's strategic focus on regulated activities.

Acea SpA AdF: modification of the by-laws and of the shareholders' agreements

On 7 October 2019 the Shareholders' Meeting of the AdF, a company that manages the integrated water service of 55 Municipalities in the provinces of Grosseto and Siena (together making up Ato 6 "Ombrone") and 40% owned by Acea, approved the amendment to the company's by-laws and shareholders' agreements, which will therefore make it possible to consolidate the company on a line-by-line basis, which until now had been consolidated within the scope of the Acea Group at the level of shareholders' equity. The Meeting's decision is part of a positive context of industrial collaboration between Acea and the institutions representing the territories the AdF operates in, with a focus on growth and sustainable development.

Acea SpA: New investment in the circular economy

On 10 October 2019 one of the largest composting plants with anaerobic digestion, treatment of organic waste and production of biogas in Central Italy was inaugurated.

The plant, located in Monterotondo Marittimo in the province of Grosseto, took about two years to build and has an authorised capacity for the treatment of 70,000 tonnes of waste per year, for a total annual electricity production of about 6 GWh. The investment was approximately € 22 million, with an expected contribution to EBITDA on an annual basis of approximately € 2.5 million. Equipped with the most advanced technologies on the market, the plant will provide significant environmental benefits including less

organic waste in landfills as it is instead transformed into fertilisers useful for agriculture (compost) and the production of electricity from renewable sources through the energy exploitation of biogas produced by the process of anaerobic waste digestion.

Acea SpA: Regional Administrative Court of Lazio cancels antitrust fine of € 16 million

On 17 October 2019 two separate sentences were published, referring respectively to the appeals filed by the companies Acea SpA, Acea Energia SpA and areti SpA, by which the Lazio Regional Administrative Court completely annulled the fine of € 16.2 million imposed jointly and severally on the aforementioned companies by the Antitrust Authority (AGCM), by order no. 27496 of 20 December 2018, which referred to alleged anti-competitive conduct in the electricity sales market.

Acea SpA Resignation and co-optation of new Acea SpA director

On 11 December 2019 the Board of Directors of Acea SpA took note of the resignation of Mr Fabrice Rossignol from the position of Director for professional reasons.

On the recommendation of the Appointments and Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, the Board of Directors co-opted Ms Diane Galbe, a new director to replace the resigning director pursuant to art. 2386 of the Italian Civil Code and art. 15, paragraph 3 of the by-laws, as the first of the unelected candidates on the same list.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

Acea SpA Successfully placed a nine-year € 500 million bond issued under the EMTN Programme

Following the Board of Directors' resolution of 22 January 2020 and the completion of bookbuilding, on 29 January 2020 it successfully completed the placement of a non-convertible bond loan for a total principal amount of € 500 million, maturing on 6 April 2029 and at a rate of 0.50%, under the € 4 billion Euro Medium Term Notes (EMTN) programme, with the Base Prospectus as last updated on 15 July 2019 and subsequently supplemented on 27 January 2020 (the "Bonds").

The Bonds are intended exclusively for institutional investors in the Euromerket. The issue was successful, receiving requests equal to about 3 times the amount of the Bonds offered, by investors of primary rank and representative of many geographical areas.

The Bonds have a minimum unit denomination of € 100,000 and have been placed at an issue price of 99.20%, which implies a yield of 0.59%. The Bonds are governed by English law. The settlement date was set at 6 February 2020. From that date the Bonds will be listed on the regulated market of the Luxembourg Stock Exchange, where the prospectus was filed.

The proceeds from the issue of the Bonds will be used to finance the Company's ordinary activities, as well as to support the investments envisaged in the business plan for the three-year period 2020-2022.

Covid-19

The international health emergency caused by Covid-19, commonly referred to as "Coronavirus", emerged suddenly after 31 December 2019 and only recently the World Health Organisation has declared the existence of an international emergency.

This has led the Italian government in particular to put in place a series of provisions that are both restrictive and of an emergency economic nature, the duration of which is impossible to predict at this time. In view of the circumstances, it is impossible to calculate the real impact these measures will have on the economy and the Group itself.

However, in view of the fact that the characteristics of the businesses managed by the Acea Group, 81% of whose EBITDA is generated by regulated activities, and in light of the chronology of events and news after the balance sheet date, the regulatory areas governing the Acea Group's businesses have not changed significantly due to the aforementioned health emergency.

However, it is believed that cash inflows may decline in the short and medium term, although it is hoped that equalisation mechanisms will be put in place to support the customer segments most exposed to the effects of the emergency.

In accordance with IAS 10, the potential impacts that could affect the quality of receivables as a result of the aforementioned possible reduction in collections are considered events pertaining to the following year, and therefore have not been reflected in the valuations when preparing the 2019 Financial Statements.

With regard to the financial impact both in the short and medium term, there are no significant uncertainties for the Acea Group in dealing with the "coronavirus" emergency and the effects that this could reasonably cause, also because of the company's ability to continue to operate as a going concern thanks to the Group's solid financial structure as at 31 December 2019, cash and cash equivalents of approximately € 836 million plus credit lines granted and unused of approximately € 628 million and the possibility of issuing a further € 1.4 billion of corporate bonds under the EMTN programme.

MAIN RISKS AND UNCERTAINTIES

Due to the nature of its business, the Group is exposed to various types of risks, in particular regulatory risks, risks from natural events and climatic variations, political/social and macroeconomic context risks, operational and environmental risks and financial market risks. In order to manage these risks, analyses and monitoring are carried out by each company as part of a structured and coordinated process implemented at a Group level through the integration of two complementary approaches (ERM and Continuous Risk Management), aimed at assessing and treating the risks of the entire organisation in an integrated logic, consistent with its risk appetite, with the aim of providing management with the information needed to make the most appropriate decisions to achieve strategic and business objectives, to safeguard, grow and create value for the company.

This combination is designed to ensure effective control of the entire universe of main risks the Group is potentially exposed to, guaranteeing management of the Group's overall exposure in line with the objectives of the Business Plan and Sustainability.

In order to contain these types of risks, the Group has implemented mitigation and monitoring as summarised below at both a corporate and industrial segment level.

For risk mitigation long ago the Acea Group introduced the development and adoption of a Group Insurance Plan based on the following pillars:

- *Third Party Liability*
- *Property Damage*
- *Employee benefits*

The first two pillars transfer the economic and/or asset risk deriving from civil liability – in all its general, professional, environmental and cyber forms – and from events (accidental, culpable or malicious) affecting the Group's physical and production assets.

The third pillar, on the other hand, aside from transferring economic and financial risk, implements a corporate welfare measure guaranteeing and paying the employees of the Acea Group significant financial support – both to those directly concerned and to those who may be entitled – in case of serious traumatic events related to both the professional and private spheres.

Still on the subject of risk mitigation, most of the companies of the Acea Group have adopted and maintain an Integrated Quality, Environment, Safety and Energy Management System (hereinafter the "System"), which complies with UNI ISO 9001:2015 (Quality), UNI ISO 14001:2015 (Environment), BS OHSAS 18001:2007/UNI ISO 45001:2018 (Safety) and UNI ISO 50001:2018 (Energy), certified by an accredited external body, as a tool for the prevention of accidents, diseases and pollution, as well as a measure to promote and support the efficiency and effectiveness of the company's processes, including energy processes, and to achieve continuous improvement in the performance of the System itself and work management.

Note that, on the date of preparation of the current Management Report, we do not expect to be exposed to further risks and uncertainties that may have a significant impact on the results of the Acea Group's operations, equity or financial position, other than those mentioned in this document.

REGULATORY AND LEGISLATIVE RISKS

As is well known, the Acea Group operates mainly in regulated markets and the requirements and obligations that characterise them (as well as changes in the rules of operation of these markets) can significantly affect the results and performance of operations.

In particular, several Group companies manage the Integrated Water Service in their respective Territorial Areas, which is known to be a sector receiving an increasing level of attention from lawmakers and the Sector Authority (ARERA). The Group is therefore exposed to the evolution of the relevant legal/regulatory frameworks in the areas served. In this regard, note how the rules of territorial planning and governance of the Integrated Water Service continue to be subject to specific regulatory measures. In fact, two different bills have been drafted (AC 52, first signatory Hon. F. Daga, and AC 773, first signatory Hon. F. Braga) which, taking up previously proposed topics, intend to deal with the government and public management of the integrated water cycle in different ways. The two bills, whose examination was joint and declared urgent, are currently being examined by the Appointee of the Chamber's Environmental Commission.

Companies in the Environment Segment are also exposed to potential risks arising from changes in the legal framework following the forthcoming revision of the Environmental Consolidation Act, and in the regulatory framework following future measures of ARERA concerning the integrated waste cycle sector.

These risks are mitigated by careful monitoring of regulatory developments, interacting with the relevant bodies and participating in association and institutional meetings carried out by the competent business structures in synergy with the Group's organisational structures. These structures monitor regulatory developments in terms of providing support in the preparation of comments in the response to the Consultation Paper, in line with the interests of Group companies, and guidance for the consistent application of regulations in corporate procedures and within the electricity, gas, water and environment businesses.

The nature of the business also exposes the Acea Group to the risk of non-compliance with consumer protection regulations pursuant to Italian Legislative Decree no. 206/2005, i.e. the risk mainly connected to the commission of consumer offences/unfair trade practices or misleading advertising (through activities like omission of relevant information, dissemination of untrue information/forms of undue influence, unfair terms in commercial relations with consumers), as well as the risk of non-compliance with the regulations for the protection of competition, i.e. the risk associated mainly with the prohibition of companies to establish restrictive agreements and to abuse their dominant position in the market (through activities like market allocation, manipulation of tenders, restrictive agreements and other types of anti-competitive agreements, exchange of commercial/competitive information that potentially constitutes the creation of a cartel).

At the end of 2018 Acea adopted a specific Antitrust Compliance Programme and appointed a Holding Antitrust Officer. The main objective of the programme is to strengthen internal controls aimed at preventing the violation of regulations through the implementation of regulatory and organisational instruments, as well as through a more widespread dissemination of the culture of respect for the principles of fair competition and consumer rights. In 2019 the main Group companies adopted the Antitrust Compliance Programme in line with the indications of the Holding Company, and set up organisational structures in which Company Antitrust Officers were appointed, given the task of managing the activities to adapt the Programme to the individual companies and supervise its implementation and maintenance.

Regulatory risks also include all non-conformities, with particular regard to the environmental impact of Acea Group (generated for example by the activities of production and / or treatment of urban

waste and waste, and of health and safety). at work, mitigated through the adoption of certified management systems, respectively UNI EN ISO 14001:2015 and BS OHSAS 18001:2007), which may result in the application of administrative and / or criminal penalties, including those of a disqualifying nature.

Some newly introduced crimes expand the catalogue of predicate offences capable of activating the responsibility of the bodies pursuant to Italian Legislative Decree no. 231/2001, thus requiring an update of the organisational models. Specifically:

- on 18 December 2018 the new Anti-Corruption Law was passed (the so-called “Spazzacorrotti”), which introduced into Italian Legislative Decree no. 231 of 8 June 2001, paragraph 1 of art. 25 “Bribery and corruption, undue inducement to give or promise utilities” the crime of “Trafficking in illicit influences” (art. 346 bis of the Italian Criminal Code);
- law no. 39 of 3 May 2019 which, implementing in our system the Convention of the Council of Europe on the manipulation of sporting competitions signed in Magglingen on 18 September 2014, added to Italian Legislative Decree no. 231 of 8 June 2001 a new art. 25 quaterdecies “Fraud in sporting competitions, illegal gambling or betting and games of chance by means of prohibited devices”;
- law converting Italian Decree Law no. 105/2019 of 14 November 2019 containing “Urgent provisions on the subject of national cybernetic security perimeter” which amended art. 24-bis of Italian Legislative Decree no. 231/01 “Computer crimes and unlawful data processing” providing for the liability of the entity also for the crimes referred to in article 1, paragraph 11 of Italian Legislative Decree no. 105/2019;
- law converting Italian Decree Law no. 124/2019 of 17 December 2019 that came into force on 25 December 2019, which introduced among the predicate offences in Italian Legislative Decree no. 231/01 some tax offences.

As part of the general Group Whistleblowing Procedure aimed at regulating the system with which anyone can make voluntary and discreet whistleblowing reports, guaranteeing the confidentiality of the identity of the whistleblower and thus protecting him/her from any retaliation, the rules governing Whistleblowing relating to unlawful conduct have been updated, also pursuant to Italian Legislative Decree no. 231/2001 and/or violations of the 231 Model, expanding the possible channels of communication to include a specific IT platform soon to be adopted, accessible by everyone (employees, third parties, etc.) on the website of each Group Company, and by employees of the Italian Companies of the Group having access to the company’s Intranet.

The subsidiary Acea Ato 5 is involved in investigations and proceedings that relate to cases falling under Italian Legislative Decree no. 231/2001 regarding the environment and corporate crimes. In particular, with regard to corporate offences, case 2031/16 relates to financial years 2015, 2016 and 2017 and alleges that the crimes of accounting fraud and filing fraudulent financial statements were committed by the Chairmen of the Company and the representatives of the supervisory body of this company. Investigations are ongoing. It should be noted that some consolidated companies (mainly Acea Ato 5, Acea Ato 2 and Acea Ambiente), as more fully illustrated in the relative financial statements for the year, are subject to investigations or proceedings that relate to significant cases pursuant to Italian Legislative Decree no. 231/2001, mainly concerning safety and the environment. There is also a complaint for a corporate offence related to Acea Ato 5 alone. In particular, with regard to corporate offences, case 2031/16 relates to financial years 2015, 2016 and 2017 and alleges that the crimes of accounting fraud and filing fraudulent financial statements were committed by the Chairmen of the Company and the representatives of the supervisory body of this company. Investigations are ongoing. On the basis of the information currently available, taking into ac-

count the operational autonomy of the companies with respect to the parent company Acea, any responsibilities that may be ascertained upon the final outcome of the aforementioned proceedings are exclusively attributable to the companies themselves, without any repercussions on the Parent Company or other companies of the Group that are not involved.

It should be noted that some consolidated companies (Areti, Acea Ato 2, Acea Elabiori and Acea Ambiente), as more fully illustrated in the relative financial statements, are subject to investigations or proceedings that relate to significant cases pursuant to Italian Legislative Decree no. 231/2001 concerning safety and/or the environment. There are also complaints for corporate offences relating only to Acea Ato 5.

On the basis of the information currently available, taking into account the operational autonomy of the companies with respect to the parent company Acea, any responsibilities that may be ascertained upon the final outcome of the aforementioned proceedings are exclusively attributable to the companies themselves, without any repercussions on the Parent Company or other companies of the Group that are not involved.

Finally, other additional regulatory risks that may potentially be of particular relevance for the Acea Group include those arising from the Privacy Regulation (EU) 2016/679 GDPR.

The Acea Group’s compliance programme has made it possible to define and implement a Privacy Governance Model that is valid for the Group, taking the Parent Company as a privileged area of observation in its role as the linchpin of the system and supplier of services and/or centralised activities, looking at the Companies with a logic of priority at the core processes of each business area. The online training programme offered using an e-learning platform that was successfully implemented in the previous period for the Parent Company has been extended to the Companies to provide a first layer of compliance with the obligation for Data Controllers to instruct data processing personnel, providing them with training on individual corporate processes as well as a particular focus on cross-cutting procedures (HR, Legal, etc.).

Corporate working groups have been set up to customise the Group Model in the individual companies, with effects on the implementation and/or fine-tuning of processes having a high impact on privacy, and initiatives have also been carried out to test compliance solutions already adopted.

No computer incidents have been reported affecting the personal data held by Group companies during the period 2018-2019.

OPERATING AND ENVIRONMENTAL RISKS

The management of the Integrated Water Service – the entire cycle of drinking water and wastewater from the capture of the natural resource to its return to the environment – requires the respective Group companies comply with specific conventions and manage water infrastructure that is spread throughout the region for the supply and distribution of drinking water and sewerage networks and plants, ensuring the continuity and quality of the service provided.

Some of the uncertainty that the Group must deal with includes possible impacts deriving from unpredictable natural phenomena (e.g. earthquakes, floods and landslides) and/or from cyclical or permanent climatic variations. These risks are addressed through the implementation of structured tools for the governance of water dynamics (e.g. Water Safety Plan) as well as specific projects to increase the resilience of the infrastructure in the various regions. Finally, it should be noted that the residual portion of risks from natural events is covered by the Group’s insurance programme.

The Water Segment Companies offering Integrated Water Services implement programmes, procedures and controls in order to ensure adequate HSE compliance monitoring by virtue of the very

characteristics of the business managed (potential breach of drinking water limits due to source pollution, potential breach of treated wastewater discharge limits in receiving bodies, occupational health and safety, characterisation and compliance of outgoing waste, etc.).

Acea Ato 2 – critical situations concerning irregular discharges

The Operating Agreement signed officially ratified the obligation to transfer the integrated water services of Municipalities in Ato 2 (except for protected services and, subsequently, on the basis of art. 148, paragraph 5 of Italian Legislative Decree no. 152 of 3 April 2006, also Municipalities with up to 1,000 residents, which have the right to not subscribe to the I.W.S.) in accordance with the law. In reality the times and procedures for the implementation of said transfer were not observed both due to the unwillingness of some Municipal Authorities to transfer the Service, and as it was impossible for the Operator, in particular from 2007, to take over the management of water, sewerage and wastewater treatment plants that did not comply with the provisions of the laws in force to avoid exposing both the Operator and its executives to the consequent criminal charges applied by the magistracy.

The most critical situations in fact are discharges that are still not treated and/or existing waste treatment plants that must be re-qualified and/or upgraded to meet the new emissions limits set by the Supervisory and Control Authorities as a result of a different evaluation of the hydrological structure of receiving water courses, or even the nature of the receiving system (soil instead of water) as some wastewater treatment plants discharged onto soil as the water course was dry when inspected. The uncertainty of this situation is due to the fact that the Lazio Region has not yet determined the classification of the regional surface hydrographic network.

The situation of a real environmental emergency also required interventions of an institutional nature. In fact, in 2008 the Regional Authority signed a “Memorandum of understanding for the implementation of extraordinary reclamation of river, lake and sea resources to solve the discharge emergency in Ato 2 – Central Lazio – Rome” to allocate specific funds for the implementation of some plans of action to deal with the emergency.

Today, thanks to a noteworthy technical development and economic commitment, 184 of the 246 discharges surveyed have been collected for water treatment. There are still 62 discharges active, of which 35 of Acea Ato 2 and 26 of the Municipal Administrations. Of the latter, 15 discharges were restored with interventions that were subsequently requested of the Manager.

During the first few months of 2018, in the light of ARERA Resolution 918/17, the update of the 2018-2019 Works Programme has been drafted with indications until the end of the concession (2032). This Programme is part of the documentation underlying the tariff application, adopted by Resolution no. 3-18 of 15 October 2018 by the Conference of Mayors and approved by Resolution no. 572/2018/R/idr of 13 November 2018, by ARERA.

In the first years, from 2003 on, investments financed by the tariff were made for annual amounts in growth (from € 30 to € 70 million), which in the Integrated Water Service implementation phase discounted the lack of knowledge of the plants being acquired from the Municipalities and the need to draw up a plan aimed at solving the most critical problems, especially in the hygienic-sanitary sector. The time frames resulting from this design and the authorisations necessary for the construction of the works have delayed the performance of investments in the region.

In the following years the investments made went from € 141 million in 2014 to € 189 million in 2015, to € 225 million in 2016 and € 232 million in 2017 and about 279 in 2018, all values net of write-downs and disposals, almost doubling the value per inhabitant served by around € 36/inhabitant to about € 60/inhabitant, and in fact recovering the gap of previous years by making greater investments than those planned in the previous Plans.

As a result of a process of technological renewal and the implementation of the design activities developed in previous years, it has been possible to increase the production of investments for the construction of new large works. With regard to the difficulties related to the authorisation phase of the projects and the declaration of public utility by the Municipalities and in particular the Municipality of Rome and the consequent infrastructure procedures aimed at acquiring the areas necessary for the works, an effort was made with the Conference of Mayors resolution no. 2-17 of 20 December 2017 with which the power to approve the projects and concurrent declaration of a single opinion on the works in the works programme and to organise the Service Conferences necessary was delegated to the Operational Technical Secretariat.

Acea Ato 2 – critical elements of the drinking water system

From 2002 to date, the flow supplied by the aqueducts of Scheme 66 that supplies Roma Capitale to the Municipalities of the metropolitan area of Roma Capitale has increased from less than 300 to about 2,600 l/s. This increase in distribution was necessary to overcome emergencies, especially qualitative ones, and drastically reduced the reserves available to Roma Capitale and the Municipalities themselves.

Two critical elements emerged and continue to emerge following the acquisition of the Integrated Water Service:

- quality of the water flowing out of the source;
- water shortage mainly in the South of Rome.

With respect most importantly to the **first critical issue**, the qualitative crisis caused by the presence in the territory of water sources that do not comply with the chemical parameters such as those for arsenic and fluorine, which are naturally found in underground water sources of volcanic origin, with the consequent critical situation in terms of the quantity and quality of the water supplied (Municipalities in the district of Castelli Romeni and in general those in the volcanic areas of the Ato with over 170,000 inhabitants in fourteen Municipalities), resulted in the Company having to draw up restoration plans to put into action to meet the parameters of Italian Legislative Decree no. 31/2001 as implemented in subsequent investment plans of the Area Plan.

To this end, interventions were planned and implemented:

- replacement of the local qualitatively critical sources with sources characterised by better qualitative properties;
- mixing water sources free of undesired elements;
- construction of drinking water plants using reverse osmosis filtration technology.

As for the **second critical element**, in other words the water shortage mainly affecting the Colli Albani area, which is supplied by the Simbrivio aqueduct, the Doganella aqueduct and over 140 local wells, over the years various interventions have attempted to mitigate this critical situation, such as taking a branch off the Pertuso spring, putting new plants into service, the Arcinazzo tank and the Ceraso “booster” plant, the new VIII lift siphon in the Municipality of Frascati.

These interventions have made it possible to increase the mixing capacity of low-quality sources and to guarantee a savings in the resources coming from the Doganella aqueduct, which due to its structure is limited in scope.

With regard to the water shortages in the area north of the province of Rome, during the year 2019 the Mignone aqueduct was acquired under management with the purification plant that derives from the Mignone River. This plant underwent major restructuring in 2019 that will continue in 2020, which will ensure both an increase in the flow rate and an improvement in the quality of the water.

Concurrently, work is under way to connect the municipal networks of Allumiere and Tolfa in order to increase their capacity during the summer.

It should also be noted that during 2019 important reclamation

work was carried out on the water network, involving a total of approximately 90 km.

Lastly, it should be noted that in 2019 the only new addition to the company's portfolio was the water service of Percile.

COMMERCIAL AND TRADING SEGMENT

With regard to the Commercial and Trading Segment, the main operational risks associated with Acea Energia's activities in the deregulated electric power and natural gas markets are the risk of a possible progressive concentration of operators in these markets, with an impact on the Company's customer base growth plans and its positioning.

There is also a risk connected with the extension of the Protected Service and the definition of the procedures for its closure, which could affect company strategies.

In order to ensure the success of the development initiatives envisaged in the Business Plan, the Segment companies have launched change management projects, mitigating the risks associated with the non-involvement of all personnel (staff and line personnel, managers and others).

Acea Energia also has typical business risks deriving from an efficient and effective management of billing and credit recovery processes, where it is affected by the sub-optimal performance of electricity and gas distributors.

Information about commodity price risk and the control tools adopted is provided in the "Financial Market Risk" section of this Report.

ENERGY INFRASTRUCTURE SEGMENT

Potential sources of risk referable to the Companies of the Energy Infrastructure Segment derive from the implementation of the development plans of the 2019-2022 Business Plan (fibre optics project, 2G smart metering project, resilience plan of the distribution network, growth in the photovoltaic sector through M&A and the construction of plants), and the monitoring of information security and systems.

With regard to plant safety, the Companies operate by implementing protocols, procedures and controls in accordance with the provisions of current regulations and in full collaboration with the relevant Authorities and Institutions.

With regard to the continuity of service, in addition to the aforementioned development plans, areti has implemented specific initiatives relating to the Public Lighting service provided in the Municipality of Rome, such as plans to modernise and reclaim the network.

As far as cyber security is concerned, areti is implementing all the necessary actions to align its cyber security posture with the main national and international industry standards. Technological and organisational measures are being implemented with the aim of:

1. managing the threats to the organisation's network infrastructure and information systems in order to ensure a level of security appropriate to the existing risk;
2. preventing accidents and minimising their impact on the security of the network and information systems used to provide services, so as to ensure their continuity.

In general, the main risks falling within this Industrial Segment (which includes, in addition to areti, Acea Produzione, Ecogena, ALL and the new photovoltaic company) can be classified as follows:

- risks relating to the effectiveness of the **investments** for the replacement/renewal of grids, in terms of expected effects on the improvement of service continuity indicators;
- risks relating to the **quality**, reliability and duration of works;
- risks relating to the ability to **meet the terms** for obtaining prescribed authorisations, regarding both the construction and start-up of plants (pursuant to Regional Law 42/90 and relat-

ed regulations) and performing work (authorisations of Municipalities and other similar authorisations), according to the need to develop and enhance the plants;

- risks related to **production failure**.

The risk relating to the effectiveness of **investments** basically stems from the increasingly stringent ARERA service continuity regulations. To deal with this risk, areti has strengthened the tools for analysing network performance in order to make increasingly better use of capital expenditure (e.g. ORBT project) and applied new technologies (automation of medium voltage network, smart grids, etc.).

As far as the risk linked to **work quality** is concerned, areti implemented operational, technical and quality control systems, including the creation of the Worksite Inspection Unit, which forms part of the Quality and Safety department. The results of the inspections, which are processed electronically and statistically analysed, give rise to rankings (reputational indicators) and a "vendor rating" system, developed in collaboration with the University of Tor Vergata (Rome). This system ranks contractors according to their reputation, scored on the basis of their ability to meet the quality and safety standards for worksites.

The good level in the reputation indicator was confirmed for companies that worked for areti.

The risk relating to the ability to **meet deadlines** arises from the number of entities that have to be addressed in the authorisation procedures and from the considerable uncertainty linked to the response times of these entities; the risk lies in the possibility of refusals and/or in the technical conditions set by the above entities (such as the construction of underground rather than above-ground plants, with a subsequent increase in plant and operating costs). It should also be noted that lengthy proceedings result in higher operating costs, are difficult to deal with for operating structures (drafting and presentation of in-depth project examinations, environmental studies, etc.) and require participation in service conferences with technical meetings at the competent offices. However, the substantial risk is still essentially linked to the failure to obtain authorisations, with the result being the inability to upgrade plants and the subsequent greater risk linked to the technical performances of the service (at present there are delays in upgrading the HV network in the coastal area and the Terna procedure to construct a new Castel di Leva primary substation). Note that a particularly critical point is the long response times of a number of the administrations contacted.

With regard to the risk of **non-production** of the plants, Acea Produzione has taken steps from the beginning of the activities to sign with primary insurance companies policies to limit any damage caused by the lack of production.

Finally, areti has adequately mitigated the risk to "typical" business areas like the integrity of its assets, adequate health and safety at work and its exposure to counterparties such as key suppliers and significant debtors and end customers for the technical services rendered.

ENVIRONMENT SEGMENT

The waste treatment plants are highly complex from a technical point of view, requiring the companies to employ qualified personnel and adopt organisational structures with a high level of know-how. They and their activities are parametrised to specific characteristics of the waste. The failure of incoming material to meet the necessary specifications could lead to concrete operational problems, sufficient to compromise the operational continuity of the plants and give rise to risks of a legal nature. For this reason, specific procedures have been adopted for monitoring and controlling incoming materials via spot checks and the analysis of samples pursuant to legislation in force.

The risk of waste produced not being delivered downstream in the

value chain is particularly significant and has an impact on business continuity. Acea Ambiente uses tendering procedures to stimulate the opening of the market. Furthermore, the Segment Companies implement programmes, procedures and controls to ensure adequate HSE compliance monitoring by virtue of the very characteristics of the business managed (CO₂ emissions, exceeding exhaust emission limits, health and safety at work, non-compliance of incoming waste, etc.).

The Terni and San Vittore del Lazio plants were involved in optimisation and revamping projects that typically present risks related to the construction of complex industrial infrastructure (construction and performance defects).

The Orvieto plant recently completed an important redevelopment of the recovery processes for composting and is currently undergoing a project to expand it, while the Latina plants (recently built), Monterotondo Marittimo and Sabaudia are affected by important interventions of expansion and redevelopment.

With regard to the management phase, the possible discontinuity of the waste-to-energy activities carried out in the Terni and San Vittore del Lazio plants and the waste treatment activities carried out by the other plants, if connected to the production of electricity under CIP 6/92 and the performance of services of public importance, could lead to significant negative effects.

This, both from an economic point of view and with respect to responsibility towards public and private suppliers. In this context, therefore, where not planned, a plant shutdown creates a concrete risk of failure to achieve the objectives of the industrial activity.

The waste-to-energy plants, as well as waste treatment plants to a lesser extent, are characterised by a high level of technical complexity, which requires the management of qualified resources and organisational structures with a high level of know-how. Therefore, there are specific risks with regard to the continuity of technical performance of the plants, as well as connected to the possible exodus of professional skills (not easily available on the market) having specific managerial skills in this area.

These risks have been mitigated by implementing specific maintenance and management programmes and protocols, drawn up partly on the basis of the experience acquired in plant management.

Moreover, the plants and the related activities are designed to handle certain types of waste. The failure of incoming material to meet the necessary specifications could lead to concrete operational problems, sufficient to compromise the operational continuity of the plants and give rise to risks of a legal nature.

For this reason, specific procedures have been adopted for monitoring and controlling incoming materials via spot checks and the analysis of samples pursuant to legislation in force.

MARKET RISK

The Group is exposed to various market risks with particular reference to the risk of price/volume oscillations for commodities being bought and sold, interest rate risks and foreign exchange risks to a lesser extent. To reduce exposure to within the defined limits, the Group enters into contracts drawn up on the basis of the typologies offered by the market.

The **Market Risk** is the risk concerning the unexpected effects on the value of the portfolio of assets due to changes to the market conditions.

In this context, reference is made to the Price Risk and Volume Risk cases as defined:

- **Price Risk:** risk linked to the change in commodities prices due to the difference in the price indices for purchases and sales of Electricity, Natural Gas and EUA Environmental Certificates;
- **Volume Risk:** the risk linked to changes in the volumes effectively consumed by clients compared to the volumes envis-

aged in the sales contracts (sale profile) or, in general, the balancing of positions in the portfolios.

Political, social and macroeconomic context risk

In providing services to its customers, the Acea Group is very attentive to the expectations and choices of its institutional, regional and central counterparts. On the other hand, most of its activities are in any case sensitive to the economic and structural dynamics experienced by the economic and productive fabric of the respective regions.

In this sense, the main factors influencing the Group's performance include changes in the political, social and macroeconomic context of reference. These uncertainties can have an impact on the implementation of investments, even major works, whose timing can be influenced by changes in government structures at both a central and local level.

With regard to the development initiatives envisaged in the Business Plan in the Environment Segment (growth through M&A and construction of greenfield plants), there is a risk deriving from the failure of the competent authorities to issue permits.

The Group has historically focused on guaranteeing levels of excellence in the technical and commercial quality of the services provided, including through dialogue models that are increasingly attentive to the needs expressed by its stakeholders in order to put in place virtuous dynamics in relations with its customers, also with regard to payment habits. In this regard, it should be noted that the Group is also subject to the risk of deterioration of its credit positions, particularly in connection with the provision of the Integrated Water Service, with consequences on the exposure of working capital. This risk is managed proactively by the relevant structures of the individual companies, applying specific Group Credit Policies and with the support of the Parent Company's relevant organisational structures.

Information Technology risks

For years now Acea has followed a development path focused on the use of new technologies as a driving force for the operational efficiency, safety and resilience of its industrial assets. The main business processes are now all supported by the use of advanced information systems, implemented and managed by the Group's centralised departments to support the operations of the various companies. In this sense, the Group is therefore exposed to the risks of the adequacy of the IT infrastructure to the current or future needs of the various businesses, as well as to the risks of unauthorised access to the data processed using IT procedures, with or without intent, and in any case inappropriate or not in compliance with current regulations. Acea manages these risks with the utmost attention through specific corporate compliance structures coordinated by specialised Group safeguards.

Commodity price risk

Through the activities carried out by the Commodity Risk Control Unit of the Finance Unit within the Administration, Finance and Control department, Acea SpA ensures the analysis and measurement of exposure to market risks, interacting with the Energy Management Unit of Acea Energia SpA, verifying compliance with the limits and criteria adopted by the General Risk Management of the Commercial and Trading Industrial Segment and by the Administration, Finance and Control Department in line with the Acea SpA's "Guidelines for the Internal Control and Risk Management System" and the specific procedures approved in 2019.

The analysis and management of risks is carried out according to a second-level control process that involves the execution of activities throughout the year with different frequency by type of limit (annual, monthly and daily), carried out by the Commodity Risk Control Unit and by risk owners. Specifically:

- **every year**, the measures of the risk indicators, i.e. the limits in

force, must be reviewed and respected in the management of the risks;

- **every day**, the Commodity Risk Control Unit is responsible for verifying the exposure to market risks of the companies in the Commercial and Trading Industrial Segment and for verifying compliance with the defined limits.

The reports are sent to the Top Management on a daily and monthly basis. When requested by the Internal Control System, Commodity Risk Control prepares the information requested and available to the system in the format appropriate to the procedures in force and sends it to Acea SpA's Internal Audit Unit.

The risk limits of the Commercial and Trading Segment are defined in such a way as to:

- minimise the overall risk of the entire segment;
- guarantee the necessary operating flexibility in the provisioning of commodities and hedging;
- reduce the possibility of over-hedging deriving from the variation in expected volumes for the definition of hedges;
- ensure the necessary operational flexibility for trading activities not related to industrial needs.

The management and mitigation of commodity risk are functional to achieving the economic and financial objectives of Acea Group, as indicated in the budget, in particular:

- to protect the primary margin against unforeseen and unfavourable short-term shocks in the energy market which affect revenues or costs;
- to identify, measure manage and represent exposure to risks;
- to reduce risks through the preparation and application of adequate internal controls, procedures, information systems and expertise.

Forward contracts (for physical transactions for the purchase and sale of commodities) are stipulated to meet the expected requirements deriving from the contracts in the portfolio or for transactions not involving sales to end customers.

The risk hedging strategy adopted by the Commercial and Trading Industrial Area also aims to minimise the risk associated with the volatility of the Income Statement deriving from the variability of market prices and ensure correct application of the Hedge Accounting (in accordance with current International Accounting Standards) to all derivative financial instruments used for such purpose.

As regards the commitments undertaken by the Acea Group to stabilise the cash flow from purchases and sales of electricity for the next year, it should be noted that all of the ongoing hedging operations are recorded in the accounts using the flow hedge method, as far as the effectiveness of hedging can be demonstrated.

The financial instruments used are of the swap and contracts for difference (CFD) type.

The evaluation of risk exposure involves the following activities:

- recording of all transactions involving physical quantities carried out in special books (known as Commodity Books) differentiated according to the purpose of the activity (Sourcing on wholesale markets, Portfolio Management, Sale to internal end customers inside and outside the Acea Group, Trading not linked to industrial needs) and commodities (e.g. Electricity, Gas, EUA) and nature of the operations (physical and financial);
- accurate analysis of the time profile of the purchases and sales containing the open positions, in other words exposure of the physical purchase and sale of single commodities, within set volume limits;
- creation of scenarios of reference (prices, indices);
- calculation of risk indicators/metrics (Volumetric exposure, VAR, PAR, price range);
- verification of compliance with current risk limits.

The activity performed by the Commodity Risk Control Unit provides for daily codified checks at "event" on compliance with risk procedures and limits (also for purposes of compliance with Law

no. 262/05) and reports to the Top Management any discrepancies detected during the phases of checks, so that measures can be adopted to be within the established limits.

Interest rate risk

The Acea Group's approach to managing interest rate risk, which takes the structure of assets and the stability of the Acea Group's cash flows into account, has essentially been targeted, up to now, at hedging funding costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

The Acea Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.

A static (as opposed to dynamic) approach means adopting a type of interest rate risk management that does not require daily activity in the markets, but periodic analysis and control of positions based on specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term.

Acea has, up to now, opted to minimise interest rate risk by choosing a mixed range of fixed and floating rate funding instruments.

As it is known, fixed rate funding protects a borrower from cash flow risk in that it stabilises the financial outflows in the income statement, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.

Foreign exchange risk

The Group is not particularly exposed to this type of risk, which is concentrated in the conversion of the financial statements of its overseas subsidiaries.

As regards the 20 billion Yen Private Placement, the exchange rate risk is hedged through a cross currency swap described in the section on interest rate risk.

Liquidity risk

The Group policy for managing liquidity risk, for both Acea and its subsidiaries, involves the adoption of a financial structure which, coherent with business objectives and within the limits defined by the Board of Directors, guarantees a suitable liquidity level that can meet financial requirements, while maintaining an appropriate balance between maturity and composition of debt, also taking into account the challenging objectives set out in the Business Plan in terms of developing new M&A initiatives. The various factors of uncertainty faced by the Group include the potential economic, financial and reputational impact associated with the closing or failure to close the aforementioned transactions. The Acea Group has therefore adopted an articulated and structured assessment process for these risks, carried out in close coordination between the companies and the Parent Company's organisational controls of the individual types of risk.

The liquidity risk management process, which uses financial planning tools for outflows and receipts implemented at the level of the individual companies under the coordination of specific Group oversight, aimed at optimising the management of treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract.

Credit risks

In July 2019 Acea issued the new guidelines of the credit policy to make it consistent with the ongoing organisational changes at the end of 2018 and the Credit Risk Profiling project, with which different credit management strategies have been identified. Also in July 2019, the "Scoring and customer trust" procedure was issued. The Collection Strategy envisages that credit is managed taking in-

to account both the type of customer (public and private) and the conduct of the individual customers (*behaviour score*).

The Credit Check system, operating on markets that have not been regulated for a number of years, and with which subjects to verification, through personalised scorecards, all new mass-market and small business customers integrated with the CRM in 2018.

With the May 2019 operational kick-off, project work was launched on Credit Risk Profiling for the three-year period 2019-2021, the macro objectives being the optimisation of the acquisition process, models and tools for managing Large Business customers, the activation of information platforms to support sales and the development of an advanced monitoring dashboard.

The assessment of Large Business customers continues to be managed through an approval workflow with decision-making bodies consistent with the level of exposure expected from the supply.

The dynamic management of recovery strategies is carried out in the billing system for active customers and through a dedicated management system for those discontinued. There is also a full review of the credit management process both in terms of the application map and the standardisation of activities for all Group companies, with the definition of a new Collection Strategy, fully integrated into the systems.

From the organisational point of view, in 2016 a further strengthening of the centralised management was achieved through the establishment of a new unit within the Parent Company, responsible for credit policies and the recovery of receivables from customers discontinued or with significant exposures. The structures of each single company responsible for managing credit reported

functionally to the Acea Unit that guarantees end-to-end supervision of the entire process.

At the end of 2018, once the extraordinary design review and recovery processes had been completed, the mass management of receivables that had ceased – of a limited amount – was transferred to the operating companies, leaving to the holding company the activity of disposing of non-performing receivables through disposal operations, as well as the management of customers that had ceased to exist for a significant amount of time.

During 2019, the Group significantly improved its collections capacity both in terms of electricity sales and the water supply business, significantly reducing the respective unpaid amounts compared to current turnover.

As in previous years, this year the Group has set up non-recourse, revolving and spot transactions, of receivables from private customers and public administrations. This strategy exposes the Group to the risks involved in closing or failing to close these operations, and on the other hand allows the full derecognition of the corresponding assets subject to disposal from the financial statements since all the risks and benefits associated with them have been transferred.

Risks relating to the rating

Access to the capital market and other forms of funding and the related costs, depends amongst other things on the Group's credit rating. A reduction in the credit rating by rating agencies could represent a limiting factor for access to the capital market and increase collecting costs with the consequent negative effects on the equity, economic and financial standing of the Group.

Acea's current rating is shown in the following table.

Company	M/L Term	Short Term	Outlook	Date
Fitch	BBB+	F2	Stabile	16/05/2019
Moody's	Baa2	Na	Stabile	08/08/2019

OPERATING (AND FINANCIAL) OUTLOOK

The results achieved by the Acea Group at 31 December 2019 are better than the forecasts.

The Group is determined to make major investments in infrastructure that, while maintaining the solidity of its consolidated financial structure, have a positive impact on the Group's operating and economic performance.

The Group's financial structure is solid for the years to come. At 31 December 2019, 80.7% of debt is fixed rate in order to ensure protection against any increases in interest rates as well as any financial or credit volatility. At 31 December 2019 the average dura-

tion of medium/long-term debt stood at 5.8 years. Note that the reduction of the average cost went from 2.21% of 31 December 2018 to 2.15% of 31 December 2019.

For the year 2020 Acea expects:

- an increase in EBITDA between 6% and 8% compared to 2019 in line with the CAGR of the 2019-2022 Business Plan;
- investments substantially in line with 2019 and the 2019-2022 Business Plan;
- a net financial debt at the end of 2020 between € 3.45 and € 3.55 billion.

RESOLUTIONS REGARDING THE RESULT FOR THE YEAR AND THE DISTRIBUTION TO SHAREHOLDERS

Dear Shareholders,

In inviting you to approve the financial statements we are submitting to you, we propose to allocate the profit for the year ended 31 December 2019, equal to € 208,488,011.79, as follows:

- € 10,424,400.59, equal to 5% of profit, to the legal reserve,
- € 165,787,367.46 to shareholders, corresponding to a unit dividend of € 0.78,
- € 32,276,243.74 for retained earnings.

The total dividend (coupon no. 21 of € 165,787,367.46, equal to € 0.78 per share, will be paid starting from 24 June 2020 with coupon detachment on 22 June and record date 23 June.

On the date of approval of the financial statements, treasury shares amounted to no. 416,993.

Acea SpA
The Board of Directors



ACEA
INNOVATION
DAY
2019



acea

INATION



ACEA FINANCIAL STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

The financial statements of Acea SpA for the year ended 31 December 2019 were approved by resolution of the Board of Directors on 9 March 2020, which authorised their publication. Acea is an Italian public limited company, with a registered office in Italy, Rome, piazzale Ostiense 2, whose shares are traded on the Milan stock exchange.

COMPLIANCE WITH IAS/IFRS

The financial statements have been drafted in accordance with the International Financial Reporting Standards (IFRS) effective on the date of drafting the financial statements, approved by the International Accounting Standards Board (IASB) and adopted by the European Union, consisting of the International Financial Reporting Standards (IFRS), by the International Accounting Standards (IAS) and by the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), collectively referred to as “IFRS” and pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Acea SpA adopts the international accounting standards, International Financial Reporting Standards (IFRS), with effect from the financial year 2006, with transition date to the IFRS at 1 January 2005. The latest financial statements drafted according to the Italian accounting standards refer to the financial year ended on 31 December 2005.

BASIS OF PRESENTATION

The Financial Statements for the year ended on 31 December 2019 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity – all drafted according to the provisions of IAS 1 – as well as the Explanatory and Supplementary Notes, drafted in accordance with applicable IAS / IFRS provisions.

It is specified that the Income Statement is classified based on the nature of the costs, the Balance Sheet and Financial Position based on the liquidity criterion with the subdivision of items between current and non-current, while the Cash Flow Statement is presented using the indirect method.

The financial statements for the year ended on 31 December 2019 have been drafted in Euro and all amounts are rounded to thousands of Euro unless otherwise indicated.

ALTERNATIVE PERFORMANCE INDICATORS

On 5 October 2015, the ESMA (European Security and Markets Authority) published its guidelines (ESMA / 2015/1415) on the criteria for submitting alternative performance indicators that replace, with effect from 3 July 2016, the recommendations of CESR / 05-178b. These guidelines have been incorporated into

our system with CONSOB's Notice no. 0092543 of 3/12/2015. The content and meaning of the non-GAAP measures of performance and other alternative performance indicators used in these financial statements are illustrated below:

1. the gross operating margin (or EBITDA) represents an indicator of operating performance and includes, from 1 January 2014; the gross operating margin is calculated by adding to the Operating results the item “Depreciation, Provisions and Write-downs” as the main non-cash items;
2. the net financial position is an indicator of the financial structure and is obtained from the sum of non-current payables and financial liabilities net of non-current financial assets (financial receivables and securities other than equity investments), current financial payables and other current net current liabilities current financial assets and cash and cash equivalents;
3. net invested capital is the sum of “current assets”, “non-current assets” and assets and liabilities held for sale, less “current liabilities” and “non-current liabilities”, excluding items taken into account when calculating the net financial position;
4. net working capital is the sum of current receivables, inventories, the net balance of other current assets and liabilities and current payables, excluding the items considered in determining the net financial position.

USE OF ESTIMATES

Drafting of the Financial Statements, in application of the IFRS, requires the making of estimates and assumptions that affect the values of revenues, costs, assets and liabilities in the financial statements and information on potential assets and liabilities reference date. The main sources of uncertainty that could have an impact on the evaluation processes are also considered in making these estimates. The actual amounts may differ from such estimates. The estimates were used in the assessment of the impairment test, to determine some sales revenues, for provisions for risks and charges, the allowance for doubtful accounts and other provisions for depreciation, amortisation, valuations of derivative instruments, employee benefits, and taxes. The estimates and assumptions are reviewed periodically and the effects of each change are immediately recorded in the profit and loss account.

The estimates also took into account assumptions based on the parameters and market and regulatory information available at the time the financial statements were drafted. Current facts and circumstances influencing the assumptions on future development and events may change due to the effect, for example, of changes in market trends or the applicable regulations that are beyond the control of the Company. These changes in assumptions are also reflected in the financial statements when they occur.

In addition, it should be noted that certain estimation processes, particularly the more complex such as the calculation of any impairment of non-current assets, are generally performed in full only when drafting the annual financial statements, unless there are signs of impairment that call for immediate impairment testing.

For more information on the methods in question, please refer to the following paragraphs.

ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and discontinued operations groups) classified as held for sale are valued at the lower of their previous carrying amount and market value less costs to sell.

Non-current assets (and disposal groups) are classified as held for sale when it is expected that their carrying amount will be recovered through a sale transaction rather than their use in the company's operations. This condition is met only when the sale is highly probable, the asset (or group of assets) is available for immediate sale in its current conditions and the Management has made a commitment to the sale, which must take place within twelve months from the date of classification in this item.

EXCHANGE DIFFERENCES

The functional and presentation currency adopted by Acea SpA and by subsidiaries in Europe is the Euro (€). Transactions in foreign currencies are initially recognised at the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies were reconverted into the functional currency at the exchange rate prevailing at the balance sheet date. All exchange differences are recorded in the Income Statement of the financial statements, with the exception of differences deriving from loans in foreign currency that have been entered into to hedge a net investment in a foreign company. These differences are recognised directly in equity until the net investment is disposed of and at that time any subsequent exchange rate difference is recognised in the Income Statement. The tax effect and receivables attributable to the exchange differences deriving from this type of loan are also attributed directly to equity. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate in force on the date of initial recognition of the transaction. Non-monetary items recorded at fair value are converted using the exchange rate on the date of calculation of this value.

The currency used by Latin American subsidiaries is the official currency of their country. On the balance sheet date, the assets and liabilities of these companies are converted into the presentation currency adopted by Acea SpA using the exchange rate in effect on the balance sheet date, and their Income Statement is converted using the average exchange rate for the year or the exchange rates prevailing on the date of execution of the relevant transactions. Differences in translation emerging from the different exchange rates used for the income statement with respect to the balance sheet are recorded directly in equity and are shown separately in one of its specific reserves. At the time of disposal of a foreign economic entity, the accumulated foreign exchange differences recorded in the shareholders' equity in a specific reserve will be recognised in the Income Statement.

REVENUE RECOGNITION

Revenues are recognised to the extent that it is possible to reliably determine their value and it is probable that the relevant economic benefits will be achieved by Acea SpA and are valued at the fair val-

ue of the consideration received or receivable depending on the type of transaction. Revenues are recognised on the basis of specific criteria set out below:

Sale of goods

Revenues are recognised when the significant risks and rewards of ownership of the assets are transferred to the purchaser.

Provision of services

Revenues are recorded with reference to the stage of completion of the activities on the basis of the same criteria as those for contract work in progress. In the event that the value of revenues cannot be reliably determined, the latter are recognised up to the amount of the costs incurred which are deemed to be recovered.

FINANCIAL INCOME

Income is recognised on the basis of interest accrued on the net value of the relevant financial assets using the effective interest rate (rate that exactly discounts estimated future cash flows at the net carrying amount of the asset). Interest is recorded as an increase in the financial assets shown in the financial statements.

DIVIDENDS

These are recognised when the unconditional right of shareholders is established to receive payment. These are classified in the Income Statement under the item financial income.

CONTRIBUTIONS

Contributions obtained for investments in plants, both by public bodies and by private third parties, are recognised at fair value when there is a reasonable certainty that they will be received and that expected conditions will be met. Contributions received for specific plants whose value is recorded under fixed assets are recorded among other non-current liabilities and progressively released to the Income Statement in constant instalments over a period equal to the useful life of the reference asset.

Operating grants (granted for the purpose of providing immediate financial assistance to the company or as compensation for expenses and losses incurred in a previous year) are recognised in full in the Income Statement when the conditions for recognition are met.

CONSTRUCTION CONTRACTS IN PROGRESS

Construction contracts in progress are assessed on the basis of the contractual fees accrued with reasonable certainty, according to the percentage of completion criterion (the so-called cost to cost), so as to attribute the revenues and the economic result of the contract to the individual financial years in proportion to the progress of the works. The positive or negative difference between the value of the contracts and the advances received is recorded respectively in the assets or in the liabilities side of the balance sheet.

Contract revenues, in addition to contractual fees, include variants, price revisions and recognition of incentives to the extent that they are likely to represent actual revenues and if these can be determined reliably. Ascertained losses are recognised regardless of the progress of orders.

COSTS RELATED TO BORROWING

Costs related to the assumption of loans directly attributable to the acquisition, construction or production of assets that necessarily require a significant period of time before being ready for use or sale, are included in the cost of these assets, up until where they are ready for use or sale. The proceeds from the temporary liquidity investment obtained from the aforementioned loans are deducted from capitalised interest. All other charges of this nature are recognised in the Income Statement when they are incurred.

EMPLOYEE BENEFITS

Benefits guaranteed to employees paid in connection with or following termination of employment through defined benefit and defined contribution plans (such as: Employee severance indemnities, additional monthly salaries, tariff concessions, as described in the notes) or other long-term benefits are recognised in the period of accrual of the right. The valuation of the liability is carried out by independent actuaries. These funds and benefits are not funded. The cost of benefits envisaged by the various plans is determined separately for each plan using the actuarial valuation method of the unit credit projection, making the actuarial valuations at the end of each year.

Profits and losses deriving from the actuarial calculation are recorded in the statement of comprehensive income, then in a specific Shareholders' equity Reserve, and are not subsequently charged to the Income Statement.

TAXES

Income taxes for the year represent the sum of current taxes (as per tax consolidation) and deferred taxes.

Current taxes are based on the taxable results for the year. Taxable income differs from the results reported in the Income Statement because it excludes positive and negative components that will be taxable or deductible in other financial years and also excludes items

that will never be taxable or deductible. The liability for current taxes is calculated using the rates in force or in fact in force at the balance sheet date as well as taxation instruments allowed by tax legislation (national tax consolidation, taxation for transparency).

Deferred taxes are the taxes that are expected to be paid or recovered on temporary differences between the book value of assets and liabilities in the financial statements and the corresponding tax value used in the calculation of the taxable income, recorded according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent where it is probable that there will be future taxable results that allow the use of deductible temporary differences.

The carrying amount of deferred tax assets is revised at each balance sheet date and reduced to the extent that, based on the plans approved by the Board of Directors, the existence of sufficient taxable income is not considered likely to allow all or partly the recovery of these assets.

Deferred taxes are calculated based on the tax rate that is expected to be in effect at the time the asset is realised or the liability is relieved. Deferred taxes are charged directly to the Income Statement, with the exception of those relating to items recognised directly in equity, in which case the relevant deferred taxes are also recognised in equity.

TANGIBLE ASSETS

Tangible assets are recognised at cost, including ancillary costs directly attributable and necessary for putting the asset into service for the use for which it was purchased, net of the relevant accumulated depreciation and any accumulated impairment losses.

The cost includes the costs of the dismantling and removal of the assets and the costs of reclamation of the site on which the tangible assets stand, if they comply with the provisions of IAS 37.

Assets composed of components of a significant amount with a different useful life.

The costs for improvements, modernisation and transformation that increase the value of tangible assets are recognised as assets when it is probable that they will increase the expected future economic benefits of the asset.

Land, whether free of construction or annexed to civil and industrial buildings, is not depreciated as it has an unlimited useful life.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset by applying the following percentage rates:

DESCRIPTION	ECONOMIC-TECHNICAL DEPRECIATION RATE	
	Min	Max
Instrumental systems and equipment	1.25%	6.67%
Non-instrumental systems and equipment		4%
Instrumental industrial and commercial equipment	2.5%	6.67%
Non-instrumental industrial and commercial equipment		6.67%
Other capital goods		12.50%
Other non-capital goods	6.67%	19%
Instrumental vehicles		8.33%
Non-instrumental vehicles		16.67%

Systems and equipment under construction for production purposes are recorded at cost, net of write-downs for losses in value.

The cost includes any professional fees and, for some assets, financial charges capitalised in accordance with the Company's accounting policies. The depreciation of these assets, as for all other assets, begins when the assets are ready for use. For some types of complex goods for which long-lasting functional tests are required, the suitability for use is attested by the positive passing of these tests.

Tangible assets are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of individual tangible assets or, possibly, at the level of the cash-generating unit.

Assets held as financial leases are depreciated in relation to their estimated useful life as for assets held as property or, if lower, based on the expiry dates of leases.

Profits and losses deriving from the sale or disposal of assets are determined as the difference between the sale revenue and the net book value of the asset and are recorded in the Income Statement for the year.

REAL ESTATE INVESTMENTS

Real estate investments, represented by properties held for rental and / or capital appreciation, are recorded at purchase cost including negotiation costs net of the relevant accumulated depreciation and any impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The percentages applied are between a minimum of 1.67% and a maximum of 11.11%.

Real estate investments are eliminated from the financial statements when they are sold or when the investment property is permanently unusable and no future economic benefits are expected from its possible sale.

The sale of real estate which results in the leaseback of the assets is recorded on the basis of the substantial nature of the transaction considered as a whole. In this regard, reference is made to what has been explained regarding Leases.

Any profit or loss deriving from the elimination of an investment property is recorded in the Income Statement in the year in which the elimination takes place.

INTANGIBLE ASSETS

Purchases separated or deriving from business combinations

Intangible assets acquired separately are capitalised at cost, while those acquired through business combinations are capitalised at the fair value defined on the purchase date. After the first entry into the category of intangible assets, the cost criterion applies. The useful life of intangible assets can be qualified as definite or indefinite.

Intangible assets with an indefinite useful life are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of the individual intangible asset or, possibly, at the level of the cash-generating unit.

The useful life is reviewed annually and any changes, where possible, are made by means of analytical tables.

Gains or losses deriving from the disposal of an intangible asset are determined as the difference between the disposal value and the carrying amount of the asset and are recorded in the Income Statement at the time of disposal.

Research and development costs

Research costs are allocated to the income statement when incurred. Development costs incurred in relation to a given project are capitalised when their future recovery is deemed reasonably

certain. Following initial recognition of development costs, these are valued using the cost criterion that can be decreased by any accumulated depreciation or loss.

Any capitalised development costs are depreciated for the entire period in which expected future revenues will be shown in respect of the project itself. The carrying value of development costs is reviewed annually for the performance of an adequacy analysis for the purpose of detecting any impairment losses when the asset is not yet in use, or more closely when an indicator during the period exercise may raise doubts about the recoverability of the carrying amount.

Trademarks and patents

These are initially recognised at purchase cost and depreciated on a straight-line basis based on their useful life.

With regard to depreciation rates, please note that: development costs are depreciated over a period of five years in relation to the residual possibility of use costs for intellectual property rights are amortized on the basis of a presumed period of three years.

IMPAIRMENT

Goodwill and other assets with an indefinite useful life are not amortised on a straight-line basis, but are tested for impairment at least once a year by the individual Cash Generating Units (CGUs) or groups of CGUs to which assets with an indefinite useful life can be reasonably allocated, in accordance with Group procedures. Every year, according to its own impairment procedure, Acea SpA carries out an analysis of the CGUs identified independently of the allocation of any goodwill or the presence or absence of impairment indicators.

The test consists of a comparison between the carrying amount of the asset and its estimated value in use – VIU. Given the nature of the activities carried out by the Acea Group, the method of determining the “VIU” is carried out by discounting the expected cash flows from use and, if significant and reasonably determinable, from disposal at the end of the useful life. However, where there is evidence of a reliable fair value (price traded in an active market, comparable transactions, etc.) the Group assesses the adoption of this value for impairment testing.

Cash flows are determined on the basis of the best information available at the time of the estimate, which can be inferred through the combined use of the financial method and sensitivity analyses. The determination of the “VIU” is carried out using the financial method (Discounted Cash Flow – DCF) which considers the ability to produce cash flows as the fundamental element for the valuation of the entity of reference. The application of the financial method to determine the value in use of a CGU involves estimating the present value of net operating cash flows for tax purposes. If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative book value, it is reduced to the lower recoverable value. An impairment loss is immediately recognised in the Income Statement, unless the asset is represented by land or buildings other than real estate investments recorded at revalued values, in which case the loss is recognised in the respective revaluation reserve.

When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the income statement, unless the asset is carried at a revalued amount, in which case the reversal is recognised in the revaluation reserve.

Where an impairment charge is recognised in the income statement, it is included among amortisation, depreciation and impairment charges.

EQUITY INVESTMENTS

Investments in subsidiaries and associates are recorded in the balance sheet at the adjusted cost of any impairment losses on the individual equity investments. The cost of acquisition or subscription, for those relating to contributions, corresponds to the value determined by the experts in the estimate pursuant to article 2343 of the Italian Civil Code.

The excess of the acquisition cost compared to the share of the investee's shareholders' equity expressed at current values is recognized as goodwill. Goodwill is included in the carrying amount of the investment and is subject to impairment tests and possibly written down. Losses in value are not subsequently restored if the reasons for such devaluation cease to exist.

Losses on equity investments relating to the amount exceeding the amount of shareholders' equity are classified in the provision for risks and charges even if there is a credit exposure and until the eventual formal waiver of the receivable. Charges for settlement of equity investments are recognised through the valuation of the investments themselves regardless of the allocation of charges in the financial statements of investee companies.

Investments in other companies, constituting non-current financial assets and not destined for trading activities, are measured at fair value if they can be determined: in this case, gains and losses deriving from the fair value measurement are booked directly to equity until the moment of the sale when all the accumulated profits and losses are charged to the profit and loss account for the period.

Investments in other companies for which fair value is not available are recorded at cost, written down for any permanent losses in value. Dividends are recognised in the Income Statement when the right to receive payment is established only if they derive from the distribution of profits subsequent to the acquisition of the investee company. If, however, they derive from the distribution of reserves of the investee prior to the acquisition, these dividends are recorded as a reduction in the cost of the investment itself.

TREASURY SHARES

The purchase cost of treasury shares is recognised as a decrease in equity. The effects of any subsequent transactions on these shares are also recognised directly in equity.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised when Acea SpA becomes part of the instrument's contractual clauses.

Trade receivables and other activities

Trade receivables, whose expiry falls within normal commercial terms, are recorded at their nominal value reduced by an appropriate write-down to reflect the estimate of the loss on receivables. The estimate of the amounts considered non-collectable is estimated based on the provisions of IFRS 9, or, through the application of the expected credit loss model for the evaluation of the recoverability of the financial assets based on a predictive approach, based on the prediction of the counterparty's default (so-called probability of default) and of the ability to recover if the default event occurs (so-called loss given default).

Receivables from customers refer to the amount invoiced which,

as at the date of this document, is still to be collected as well as the portion of receivables for revenues for the period relating to invoices to be issued subsequently.

Financial assets related to agreements for services under concession

With reference to the application of IFRIC 12 to the Public Lighting service concession, Acea has adopted the Financial Asset Model, recognising a financial asset to the extent that it has an unconditional contractual right to receive cash flows.

Financial assets

Financial assets are recognised and reversed from the financial statements on the basis of the trading date and are initially valued at cost including charges directly connected with the acquisition. At the subsequent balance sheet dates, the financial assets that the Group intends and has the ability to hold until maturity (financial assets held to maturity) are recorded at depreciated cost using the effective interest rate method, net of write-downs, made to reflect losses in value.

Financial assets other than those held to maturity are classified as held for trading or available for sale, and are valued at fair value at the end of each period.

When financial assets are **held for trading**, gains and losses deriving from changes in fair value are recognized in the profit and loss account for the period. For **available-for-sale** financial assets, the gains and losses deriving from changes in fair value are recognised directly in a separate item of equity until they are sold or impaired; at that time, the total gains or losses previously recognised in equity are charged to the profit and loss account for the period. The total loss amount must be equal to the difference between the acquisition cost and the current fair value.

In the case of securities widely traded on regulated markets (assets), the fair value is determined with reference to the stock market price (listing bid price) at the end of trading on the closing date of the financial year. For investments for which a market price is not available, the fair value is determined based on the current market value of another substantially equal financial instrument or is calculated based on the expected future cash flows of the net assets underlying the investment.

Purchases and sales of financial assets, which involve delivery within a period of time generally defined by the regulations and conventions of the market in which the exchange takes place, are recorded on the trading date, i.e. on the date on which the Group has assumed the commitment to purchase / sell these assets.

The initial recognition of non-derivative financial assets, not listed on active markets and having fixed or determinable payment flows, is carried at fair value.

Subsequent to initial recognition they are valued at depreciated cost based on the effective interest rate method.

At each balance sheet date, the Group checks whether a financial asset or group of financial assets has suffered an impairment. A financial asset or group of financial assets is considered to be subject to impairment if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and which have an impact on the estimated reliable future cash flows. The evidence of impairment derives from the presence of indicators such as financial difficulties, the inability to meet obligations, insolvency in the payment of important payments, the probability that the debtor fails or is subject to another form of reorganisation and the presence of objective data that indicates a measurable decrease in estimated future cash flows.

Cash and cash equivalents

This item includes cash and bank current accounts and deposits re-

payable on demand and other highly liquid short-term financial investments, which are readily convertible into cash and are subject to a non-significant risk of changes in value.

Financial liabilities

Financial liabilities are measured using the depreciated cost criterion. In particular, the costs incurred for the acquisition of loans (transaction costs) and any issue premium and discount are directly adjusted by the nominal value of the loan. Consequently, net financial charges are restated on the basis of the effective interest rate method.

Financial derivative instruments

Derivative instruments are initially recognised at cost and adjusted to the fair value on subsequent closing dates. They are designated as hedging instruments if a relationship between the derivative and the subject of the formally documented hedge exists and the effectiveness of the hedge, verified periodically, is high.

When hedging derivatives cover the risk of changes in fair value being hedged (fair value hedge), derivatives are measured at fair value and the relevant effects recorded in the profit and loss account; the adjustment to fair value of the assets or liabilities subject to hedge accounting is also consistently recorded in the profit and loss account. When hedged is the risk of changes in the cash flows of hedged items (Cash Flow Hedge), the change in fair value for the party qualified as effective are recognised in equity, while the ineffective portion is recognised directly in the profit and loss account.

Trade payables

Trade payables, whose expiry falls within normal commercial terms, are recognised at their nominal value.

Elimination of financial instruments

Financial assets are eliminated from the financial statements when Acea SpA loses all the risks and the right to the perception of the cash flows connected to the financial activities.

A financial liability (or part of a financial liability) is eliminated from the balance sheet when, and only when, it is extinguished, or in other words, when the obligation specified in the contract is fulfilled or cancelled or has expired.

If a previously issued debt instrument is repurchased, the debt is extinguished, even if it is intended to resell it in the near future. The difference between the carrying amount and the payment paid is recorded in the profit and loss account.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are made when Acea has to meet a current obligation (legal or implicit) deriving from a past event, where it is probable that an outlay of resources will be required to satisfy the obligation and a reliable estimate can be made on the amount of the obligation.

The provisions are allocated based on the Management's best estimate for the costs required to fulfil the obligation at the balance sheet date, and if the effect is significant.

When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is determined by discounting the expected future cash flows at the average rate of the company's debt taking into account the risks associated with the obligation; the increase in the provision associated with the passage of time is recognised in the Income Statement under the item "Financial income/(charges)".

ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS APPLIED AS OF 1 JANUARY 2019

IFRS 16 LEASES

Issued in January 2016, this standard replaces the previous standard on leases, IAS 17 and the related interpretations, identifies the criteria for the recognition, measurement, presentation and disclosures to be provided with reference to lease agreements for both the lessor and the lessee. IFRS 16 marks the end of the distinction in terms of classification and accounting treatment of operating leases (with off-balance sheet disclosures) and finance leases (recognised in the financial statements). The right to use the leased asset (“Right of Use”) and the commitment made will result from financial data in the financial statements (IFRS 16 will apply to all transactions involving a right of use, regardless of the contractual form, i.e. lease, rental or hire purchase). The main new development is the introduction of the concept of control within the definition. More specifically, to determine whether a contract is a lease, IFRS 16 requires a lessee to verify whether it has the right to control the use of a given asset for a specified period of time.

There will be no accounting symmetry with the lessor, which will continue to apply a separate accounting treatment depending on whether the contract is an operating lease or a finance lease (on the basis of current guidelines).

On the basis of this new model, the lessee shall recognise:

- in the balance sheet, the assets and liabilities for all leases that have a term exceeding 12 months, unless the underlying asset has a modest value;
- in profit or loss, depreciation of the leased assets separately from interest on the related liabilities.

For the first-time adoption of the principle, the transition approach used by the Acea Group was the modified retrospective approach, and therefore the contracts whose leases – including renewals – will end within 12 months from the date of first application will not be included. The Group has also used the possibility envisaged by the principle of not accounting separately for the non-lease component of mixed contracts, therefore choosing to treat these contracts as a lease.

For further details, reference should be made to the paragraph “Effects deriving from the introduction of new accounting standards”.

“IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS”

The interpretation provides clarifications on the recognition and measurement of IAS 12 – Income Taxes regarding the accounting treatment of income tax in the event of regulatory uncertainty, also aimed at improving transparency. IFRIC 23 does not apply to taxes and duties that do not fall under the scope of IAS 12.

“Conceptual Framework”

The objective of the project on Conceptual Framework is to improve financial reporting by providing a more complete, clear and updated set of conceptual elements. The purpose of the Framework is to: a) assist the Board in the development of IFRS based on coherent concepts; b) assist the preparation of financial statements in the development of consistent accounting policies when no IFRS applies to a particular transaction or event or when a

standard allows a choice of accounting policy; c) assist others in understanding and interpreting the standards.

The main changes compared to the 2010 version concern:

- a new chapter on valuation;
- better definitions and guidance, in particular with regard to the definition of liabilities;
- clarification of important concepts, like stewardship, prudence and uncertainty in valuations.

“Amendments to IAS 19”

On 7 February 2018 the IASB published its interpretation of “Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)” which requires companies to use up-to-date actuarial assumptions in order to determine pension charges following changes to defined benefits for employees.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2015-2017 CYCLE)

On 12 December 2017 the IASB published the document “Annual Improvements to IFRSs: 2015-2017 Cycle”.

The document introduces amendments to the following standards:

- IFRS 3 – Business Combinations:** The IASB added paragraph 42A to IFRS 3 to clarify that when an entity obtains control of an asset that is a joint operation, it must recalculate the value of that asset, since such transaction would be considered as a business combination achieved in stages and therefore to be counted on this basis.
- IFRS 11 – Joint Arrangements:** Furthermore, paragraph B33CA was added to IFRS 11 to clarify that if a party participates in a joint operation but does not have joint control and subsequently obtains joint control over the joint operation (which constitutes an asset as defined in IFRS 3), it is not required to restate the value of this asset.
- IAS 12 – Income Taxes:** This amendment clarifies that the tax effects of income taxes arising from the distribution of profits (i.e. dividends), including payments on financial instruments classified as equity, must be recognised when a liability for payment of a dividend is recognised. The consequences of income taxes must be recognised in the income statement, in the comprehensive income statement or in the shareholders’ equity in consideration of the nature of the transactions or the past events that generated the distributable profits or as they were initially recognised.
- IAS 23 – Borrowing Costs:** The amendment clarifies that in calculating the capitalisation rate for loans, an entity should exclude the financial charges applicable to loans made specifically to obtain an asset, only until the asset is ready and available for its intended use or sale. Financial charges related to specific loans that remain after the asset is ready for intended use or for sale must subsequently be considered as part of the entity’s general debt burden.

These changes must be applied retrospectively for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AFTER THE END OF THE FINANCIAL YEAR AND NOT ADOPTED EARLIER

“Amendments to IFRS 3 – Business Combination”

Issued on 22 October 2018 to resolve interpretative difficulties that arise when an entity needs to determine whether it has acquired a business or a group of businesses. The amendments are effective for business combinations for which the acquisition date is after 1 January 2020.

“Amendments to IAS 1 and IAS 8”

Issued on 31 October 2018 to clarify the definition of “material” and in order to align the definition used in the Conceptual Framework and in the standards themselves. The amendments are effective for periods beginning on or after 1 January 2020. Earlier application is permitted.

Effects deriving from the introduction of new accounting standards

With effect from 1 January 2019, the Group applied the new stand-

ard “IFRS 16 – Leasing” for the first time, issued in January 2016 and approved by the European Union with EU Regulation 2017/1986 of 31 October 2017.

The transition approach adopted by the Group was the modified retrospective approach, and therefore the contracts whose leases – including renewals – will end within 12 months from the date of first application will not be included. Moreover, the Group has also used the possibility envisaged by the principle of not accounting separately for the non-lease component of mixed contracts, therefore choosing to treat these contracts as a lease.

Therefore, the impact of the opening of the balance sheet at 1 January 2019 led to the recognition of an asset of € 19.2 million (so-called right of use) consisting of the right to use the underlying asset and an obligation of the same amount to make payments due for the lease, which has a negative impact on net financial debt. The effects deriving from the first application of IFRS 16 as at 1 January 2019 are shown in the table below:

ASSETS

€ thousand	31/12/2018	IFRS16	Data as at 01/01/19
NON-CURRENT ASSETS	2,153,566	19,209	2,172,774
<i>of which Right of use</i>	0	19,209	19,209

LIABILITIES

€ thousand	31/12/2018	IFRS16	Data as at 01/01/19
NON-CURRENT LIABILITIES	3,163,491	16,047	3,179,537
<i>of which Borrowings and financial liabilities</i>	3,124,571	16,047	3,140,618
CURRENT LIABILITIES	609,214	3,162	612,375
<i>of which Financial debts</i>	377,675	3,162	380,837

INCOME STATEMENT

Ref. Note	INCOME STATEMENT	2019	Related Parties	2018	Related Parties	Change
1	Revenue from sales and services	152,318,368	152,207,467	156,160,530	156,017,216	(3,842,162)
2	Other revenue and proceeds	30,915,643	9,318,616	15,662,724	7,740,641	15,252,920
	Net revenues	183,234,011	161,526,082	171,823,253	163,757,856	11,410,757
3	Personnel costs	60,096,050		57,195,964		2,900,086
4	Costs of materials and overheads	133,178,593	59,810,030	154,363,700	51,889,140	(21,185,108)
	Operating costs	193,274,643	59,810,030	211,559,665	51,889,140	(18,285,021)
	EBITDA	(10,040,633)	101,716,052	(39,736,411)	111,868,717	29,695,779
5	Net write-downs (write-backs) of trade receivables	2,748,515	0	(392,282)	0	3,140,798
6	Depreciation, amortisation and provisions	22,467,993	0	20,466,822	0	2,001,171
	Operating profit/loss	(35,257,141)	101,716,052	(59,810,951)	111,868,717	24,553,810
7	Financial income	145,918,943	139,096,589	130,272,501	128,985,136	15,646,442
8	Financial expenses	72,312,419	58,396	70,826,703	160,937	1,485,717
9	Income/(costs) from equity investments	181,633,668	181,633,668	162,073,516	177,966,381	19,560,152
	Profit/(loss) before tax	219,983,051	422,387,913	161,708,364	418,659,297	58,274,687
10	Income taxes	11,495,039	(73,944,831)	13,932,153	(80,144,970)	(2,437,114)
	Net result of negotiating activities	208,488,012	496,332,744	147,776,211	498,804,266	60,711,801
	Net profit/(loss)	208,488,012	496,332,744	147,776,211	498,804,266	60,711,801

Amounts in €

STATEMENT OF COMPREHENSIVE INCOME

€ thousand	2019	2018	Change
Net profit/(loss)	208,488	147,776	60,712
Reserve for exchange differences	(5,299)	(11,103)	5,804
Tax on exchange rate difference	1,272	2,665	(1,393)
Profit/loss deriving from exchange rate differences	(4,028)	(8,438)	4,411
Effective portion of profits/(losses) on hedging instruments ("cash flow hedges")	4,975	17,930	(12,956)
Tax effect of other gains/(losses) on hedging instruments ("cash flow hedges")	(1,194)	(4,303)	3,109
Profit/loss from the effective portion on hedging instruments net of tax effect	3,781	13,627	(9,847)
Actuarial gains/(losses) on employee benefits recognised in equity	(1,812)	1,059	(2,871)
Tax effect on the other actuarial profit/(loss) on staff benefit plans	(756)	(313)	(443)
Actuarial profit/(loss) on defined benefit pension plans net of tax effect	(2,568)	746	(3,314)
Total components of other comprehensive income, net of tax effect	(2,815)	5,935	(8,750)
Total comprehensive income/loss	205,673	153,711	51,962

All components are reclassifiable in the income statement.

STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	31/12/2019	Related Parties	31/12/2018	Related Parties	Change
11	Tangible fixed assets	98,885,234	0	97,469,362	0	1,415,872
12	Real estate investments	2,430,688	0	2,489,046	0	(58,358)
13	Other intangible fixed assets	24,283,493	0	11,762,938	0	12,520,556
14	Right of use	15,745,805		0	0	15,745,805
15	Investments in subsidiaries and affiliate companies	1,813,914,461	0	1,792,037,627	0	21,876,834
16	Other equity investments	2,352,061	0	2,352,061	0	0
17	Deferred tax assets	18,636,433	0	20,069,011	0	(1,432,578)
18	Financial assets	226,670,645	226,545,145	227,385,241	227,259,741	(714,596)
19	Other non-current assets	0	0	560	0	(560)
	NON-CURRENT ASSETS	2,202,918,820	226,545,145	2,153,565,846	227,259,741	49,352,973
20.a	Contract work-in-progress	0	0	0	0	0
20.b	Trade receivables	746,852	0	731,449	541,305	15,403
20.c	Intragroup trade receivables	98,372,275	98,372,275	88,212,898	88,212,898	10,159,377
20.d	Other current assets	32,435,439	1,986,459	31,900,595	1,931,369	534,844
20.e	Current financial assets	146,782,548	0	5,791,425	0	140,991,123
20.f	Intragroup current financial assets	2,539,759,149	2,539,759,149	2,074,601,428	2,074,601,428	465,157,721
20.g	Current tax assets	10,766,157	8,141,760	13,396,660	12,185,412	(2,630,503)
20.h	Cash and cash equivalents	688,144,677	0	978,551,644	0	(290,406,967)
20	CURRENT ASSETS	3,517,007,097	2,648,259,644	3,193,186,099	2,177,472,413	323,820,998
	TOTAL ASSETS	5,719,925,917	2,874,804,789	5,346,751,945	2,404,732,154	373,173,971

Amounts in €

Ref. Note	LIABILITIES	31/12/2019	Related Parties	31/12/2018	Related Parties	Change
	Shareholders' Equity					
21.a	Share capital	1,098,898,884	0	1,098,898,884	0	0
21.b	Legal reserve	119,336,432	0	111,947,621	0	7,388,811
21.c	Treasury shares reserve	0	0	0	0	0
21.d	Other reserves	75,157,426	0	77,972,583	0	(2,815,157)
	Retained earnings/(losses)	126,930,755	0	137,452,369	0	(10,521,614)
	profit (loss) for the year	208,488,012	0	147,776,211	0	60,711,801
21	SHAREHOLDERS' EQUITY	1,628,811,508	0	1,574,047,668	0	54,763,840
22	Severance pay benefits and other defined benefit plans	23,322,523	0	23,512,134	0	(189,612)
23	Provisions for risks and charges	15,881,547	0	15,407,726	0	473,821
24	Financial debts and liabilities	3,170,894,850	0	3,124,570,873	0	46,323,977
25	Other liabilities	0	0	0	0	0
	NON-CURRENT LIABILITIES	3,210,098,920	0	3,163,490,734	0	46,608,186
26.a	Financial payables	662,536,178	164,465,312	377,675,158	61,581,587	284,861,021
26.b	Trade payables	182,641,142	1,403,794	169,536,665	75,521,828	13,104,477
26.c	Tax payables	12,255,330	11,441,347	17,916,924	4,745,034	(5,661,594)
26.d	Other current liabilities	23,582,837	27,774	44,084,796	2,325	(20,501,959)
26	CURRENT LIABILITIES	881,015,488	177,338,228	609,213,543	141,850,774	271,801,945
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,719,925,917	177,338,228	5,346,751,945	141,850,774	373,173,971

Amounts in €

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

€ thousand	Share capital	Legal reserve	Demerged capital gains reserve	Reserve for exchange differences	Valuation reserve for financial instruments	Reserve for actuarial gains and losses	Other miscellaneous reserves	Profits (losses) accumulated	Profit (loss) for the year	Total shareholders' equity
Balances as at 31 December 2017	1,098,899	100,619	102,567	13,157	(34,285)	(9,780)	1,098	56,107	226,579	1,554,961
FTA reserve							(719)			(719)
Balances as at 1 January 2018	1,098,899	100,619	102,567	13,157	(34,285)	(9,780)	1,098	56,107	226,579	1,554,961
Allocation of 2017 profits:										
Distribution of balance, dividends								81,345	(215,250)	(133,905)
Legal reserve		11,329							(11,329)	0
Profits carried forward/ to cover losses										0
Other changes										(719)
Net income/ (loss) recorded during the year:										0
Profits and losses recognised directly in equity				(8,438)	13,627	746				5,935
Distribution of advances on dividends										0
Profit for the year									147,776	147,776
Total comprehensive profit/(loss)	0	0	0	(8,438)	13,627	746	0	0	147,776	153,711
Total as at 31 December 2018	1,098,899	111,948	102,567	4,718	(20,658)	(9,034)	379	137,452	147,776	1,574,048

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2019

€ thousand	Share capital	Legal reserve	Demerged capital gains reserve	Reserve for exchange differences	Valuation reserve for financial instruments	Reserve for actuarial gains and losses	Other miscellaneous reserves	Profits (losses) accumulated	Profit (loss) for the year	Total shareholders' equity
Balance as at 31 December 2018	1,098,899	111,948	102,567	4,718	(20,658)	(9,034)	379	137,452	147,776	1,574,048
FTA reserve							0			0
Balance as at 1 January 2019	1,098,899	111,948	102,567	4,718	(20,658)	(9,034)	379	137,452	147,776	1,574,048
Allocation of 2018 profits:										
Distribution of balance, dividends								(10,627)	(140,282)	(150,909)
Legal reserve		7,389							(7,389)	0
Profits carried forward/ to cover losses								106	(106)	(0)
Other changes						0				0
Net income/ (loss) recorded during the year:										0
Profits and losses recognised directly in equity				(4,028)	3,781	(2,568)				(2,815)
Distribution of advances on dividends										0
Profit for the year									208,488	208,488
Total comprehensive profit/(loss)	0	0	0	(4,028)	3,781	(2,568)	0	0	208,488	205,673
Total as at 31 December 2019	1,098,899	119,336	102,567	691	(16,877)	(11,602)	379	126,931	208,488	1,628,812

CASH FLOW STATEMENT

Ref. Note	31/12/2019	Related Parties	31/12/2018	Related Parties	Changes
Cash flow from operating activities					
	219,983		161,708		58,275
6	15,155		13,125		2,030
5	(178,885)		(162,466)		(16,419)
23	474		423		50
22	(3,091)		(507)		(2,585)
7-8	(73,607)		(59,446)		(14,161)
	(92,937)		(56,638)		(36,299)
	(112,909)	0	(103,800)	0	(9,109)
Financial flows generated by operating activities before changes					
20.b-20.c	(12,923)	(9,618)	11,174	10,544	(24,097)
26.b	3,752	(74,118)	(22,247)	(23,495)	25,999
	(9,171)	(83,736)	(11,073)	(12,951)	1,902
	58,807	4,069	44,027	(7,919)	14,780
	(63,273)	(79,667)	(70,846)	(20,870)	7,573
Cash flow from investment activities					
11-12	(8,087)		(8,514)		427
13	(16,362)		(6,309)		(10,054)
15-16	(14,008)		(2,438)		(11,570)
26a	(596,096)	(464,443)	(26,395)	(145,605)	(569,701)
	183,122	183,122	160,105	160,105	23,017
	140,747	(9,220)	118,380	(22,636)	22,367
	(310,685)	(290,541)	234,829	(8,136)	(545,514)
Cash flow from financing activities					
24	(290,000)		(382,891)		92,891
24	500,000		1,000,000		(500,000)
26.a	18,257	102,884	(165,325)	33,153	183,582
	(70,911)	(2,277)	(30,014)	(2,832)	(40,897)
	(73,795)	(73,795)	(133,905)	(133,905)	60,110
	83,551	26,812	287,865	(103,584)	(204,314)
	0	0	(719)	0	719
	(290,407)	(343,396)	451,848	(132,590)	(742,255)
	978,552	0	527,423	0	451,129
	688,145	(343,396)	978,552	(132,590)	(290,407)

Amounts in € thousand

NOTES TO THE INCOME STATEMENT

REVENUES

1. Revenue from sales and services – € 152,318 thousand

Revenues from sales and services are as follows:

€ thousand	2019	2018	Change
Revenue from customer services	40,751	42,587	(1,837)
of which Roma Capitale Public Lighting service	40,631	42,444	(1,813)
of which other revenues	120	143	(23)
Revenues from intragroup services	111,568	113,573	(2,005)
of which service contracts	107,971	108,165	(194)
of which other services	3,596	5,408	(1,812)
Revenue from sales and services	152,318	156,161	(3,842)

The reduction in revenues from customer services of € 1,837 thousand is attributable to the reduction in the consideration for the Public Lighting service performed in the Municipality of Rome. In July 2019 the transformation of the functional lights envisaged in the amending agreement for the management of the Public Lighting service contract with Roma Capitale was completed. In 2019, 12,014 conversions were performed out of a total of 182,556 (13,511 conversions in 2018). The reduction in revenues is also due to the drop in the efficiency fee generated by the progressive progress of the installations. Extraordinary maintenance and modernisation and safety activities agreed with Roma Capitale were carried out, thus creating 985 new lighting points.

Revenues from intragroup services recorded an overall decrease of € 2,005 thousand. This change is due to the reduction in fees for services provided to Group companies for facility management,

offset by the increase in other administrative, financial, legal and technical services (a total of - € 194 thousand) and the reduction in revenues from other services provided to subsidiaries (- € 1,812 thousand) outside the service contract, including those relating to facility management.

2. Other proceeds – € 30,916 thousand

The increase of € 15,253 thousand compared to 31 December 2018 is mainly due to the recognition of out-of-period income of € 16,200 thousand as a result of the decision of the Regional Administrative Court which annulled the fine imposed by the Antitrust Authority served on 8 January 2019 and against which an appeal has been lodged. This increase was partially offset by a reduction in expenses. The increase in revenues is due to higher compensation for personnel seconded to Group companies. Below is the composition.

€ thousand	2019	2018	Change
Contingent assets and other revenues	22,368	8,499	13,869
Seconded personnel	4,888	3,510	1,377
Reimbursement of charges for corporate offices	2,815	2,847	(32)
Real estate income	795	748	46
Refunds for damages, penalties, collateral	50	58	(8)
Revenue from sales and services	30,916	15,663	15,253

COSTS

3. Personnel costs – € 60,096 thousand

€ thousand	2019	2018	Change
Staff costs including capitalised costs	65,465	60,059	5,406
Staff employed in projects	(3,306)	(2,588)	(718)
Costs capitalised	(2,062)	(274)	(1,788)
Total	60,096	57,196	2,900

The change in the cost of labour, including capitalised costs of €5,406 thousand derives from the average outstanding amounts, as also highlighted in the table below, from the updating of the collective agreement and the costs for redundancy and mobility incentives (the latter amounting to €2,044 thousand).

The cost of personnel is netted, as well as capitalised costs, also

€3,306 thousand (+ €718 thousand compared to 31 December 2018) representing the total amount of personnel costs used in the IT projects for all group companies participating in the “community” of the IT platform.

The following table shows the average and final number of employees by category, compared to the previous year.

Category	Average number of employees			End-of-period composition		
	31/12/2019	31/12/2018	Change	31/12/2019	31/12/2018	Change
Senior executives	49	52	(3)	49	49	0
Middle managers	164	162	2	167	165	2
Clerical staff	429	421	8	429	419	10
Blue-collar workers	23	23	0	23	23	0
Total	665	658	7	668	656	12

4. Costs of materials and overheads – €133,179 thousand

Compared to 31 December 2018, total external costs decreased

by €21,185 thousand (-1.37%). The following is the composition and changes in external costs by nature.

€ thousand	2019	2018	Change
Cost of equipment	1,071	1,187	(116)
Costs for services and work	122,135	123,373	(1,238)
Costs for use of third-party goods	3,938	7,223	(3,286)
Taxes and duties	1,909	1,635	274
General expenses	4,126	20,945	(16,819)
Total	133,179	154,364	(21,185)

€ thousand	2019	2018	Change
Cost of equipment	1,071	1,187	(116)
Costs for services and work	122,135	123,373	(1,238)
Infragroup services	30,046	30,093	(47)
of which Public Lighting, Roma Capitale	29,824	29,829	(4)
Electric and Water Consumption	18,136	20,114	(1,978)
of which Electricity Consumption Roma Capitale Public Lighting Service	15,540	16,991	(1,451)
Consulting and professional services	28,096	28,275	(179)
Works	4,586	5,085	(499)
Maintenance fees	9,456	10,882	(1,426)
Staff services	4,778	4,228	551
Surveillance services	4,682	3,987	695
Advertising and Sponsorships	5,696	3,776	1,920
Cleaning, Transport and Portage costs	2,876	2,820	56
Seconded personnel	5,347	5,415	(69)
Postal charges	1,141	1,237	(96)
Bank charges	1,019	1,011	8
Governing Bodies	842	738	104
Telephone expenses	951	853	98
Insurance expenses	651	638	12
Travel costs and subsistence	565	373	192
Coordinated and continuous collaborations	407	306	101
Technical and administrative services	1,876	925	950
Typographical expenses	88	64	24
Other	897	2,551	(1,654)
Costs for use of third-party goods	3,938	7,223	(3,286)
Rent charges	37	4,147	(4,109)
Other rentals and fees	3,900	3,077	824

(follows)

€ thousand	2019	2018	Change
Taxes and duties	1,909	1,635	274
Overhead costs	4,126	20,945	(16,819)
Total external costs	133,179	154,364	(21,185)

The reduction in external costs of € 21,185 thousand is due to:

- the registration in 2018 of a pecuniary administrative fine amounting to € 16,200 thousand imposed by the Antitrust Authority; for further details see what is specified in the section “Update on major disputes and litigation”;
- lower costs for use of leased assets for € 3,286 thousand, of which € 4,792 thousand generated by the application of IFRS 16 for the first time;
- the decrease in costs for software and hardware maintenance fees (€ 1,426 thousand) relating to the management of the IT platform in common with other group companies. Please note that other rentals and charges refer mainly to hardware and software for the company data centre. Please note that, pursuant to article 149-duodecies of the CONSOB Issuer Regulations, the fees accrued by the PwC Auditing Company are shown in the table below.

€ thousand	Audit Related Service	Audit Services	Non-Audit Services	Total
Acea SpA	435	215	443	1,093

Please note that the above fees refer to assignments for the year 2019 entrusted up to 31 December 2019.

5. Net write-downs (write-backs) of trade receivables – € 2,749 thousand

Write-downs of receivables amount to a total of € 2,749 thousand and mainly refer to risks linked to the recoverability of interest re-

ceivables from Roma Capitale offset by the release to the income statement of redundancies in the provision for doubtful trade receivables from the Municipality of Naples and other group companies.

6. Depreciation, amortisation and provisions – € 22,468 thousand

€ thousand	2019	2018	Change
Amortisation and depreciation	15,155	13,125	2,030
Provision for risks	7,313	7,342	(29)
Total	22,468	20,467	2,001

Amortisation and depreciation totalled € 15,155 thousand and refer for € 3,842 thousand to intangible assets, € 6,730 thousand to tangible assets and € 4,583 thousand to depreciation generated by the application of IFRS 16.

Allocations to the provision for risks amount to € 7,313 thousand. The following are their composition by nature and their effects:

€ thousand	2019	2018	Change
Investees	0	1,000	(1,000)
Investee release	0	(432)	432
Early retirements and redundancies	6,036	5,225	811
Legal	1,256	192	1,064
Legal release	0	(346)	346
Contributive and in respect of Public Bodies	32	0	32
Release of contributory risks	0	(155)	155
Procurement and supplies	0	101	(101)
Release of procurement and supplies	(12)	(904)	892
Tax dispute risk	0	2,700	(2,700)
Release of tax disputes	0	0	0
Release of other risks and charges	0	(40)	40
TOTAL PROVISIONS	7,313	7,342	(29)

Compared to the previous year, there was a slight reduction in the overall level of provisions caused by the combined effect of lower and higher provisions as shown in the table.

For further details, see the information provided in the section “Update on major disputes and litigation”.

7. Financial income – € 145,919 thousand

€ thousand	2019	2018	Change
Income from intragroup relations	139,020	124,496	14,524
Interest and income from relationships with banks	750	647	103
Default interest towards subsidiaries	0	0	0
Interest due to third parties	429	0	429
Recovery of discounting costs	526	640	(114)
Revenue from fair value hedge	0	0	0
Financial income from Public Lighting contracts	76	256	(179)
Interest due to Roma Capitale	5,117	4,233	884
Total financial income	145,919	130,272	15,647

The increase in financial income of € 15,647 thousand is attributable for € 14,524 thousand to income from intercompany transactions mainly due to the increase in interest income on

the revolving credit line for € 14,251 thousand.

8. Financial costs – € 72,312 thousand

€ thousand	2019	2018	Change
Interest on bonds	64,448	66,296	(1,848)
Charges on interest rate swaps	5,191	2,090	3,101
Interest on short-term debt	0	8	(8)
Interest on medium-long term indebtedness	693	853	(160)
Financial charges from Public Lighting contract	58	160	(101)
Other financial charges	409	416	(7)
Losses /(profit) on foreign exchange	544	78	466
Interest expense on Equitalia and INPS instalments	447	6	441
Valuation charges at fair value hedge	0	919	(919)
IFRS 16 discounting charges	522	0	522
Total financial charges	72,312	70,827	1,486

The € 1,486 thousand increase in financial charges is due to higher charges on interest rate swaps (€ 3,101 thousand) partly offset by lower interest on bonds (€ 1,848 thousand).

crease compared to the previous year, having risen from 1.94% in 2018 to 1.90% in 2019.

The change in interest on bonds includes the effect of the loss of interest accrued on the bond repaid on 12 September 2018, partially offset by interest on new issues.

With reference to the average cost of Acea's debt, there was a de-

9. Income/Expenses from equity investments – € 181,634 thousand

Income from equity investments amounted to € 183,122 thousand, an increase of € 5,155 thousand (previously € 177,966 thousand). It is composed as summarised in the following table.

€ thousand	2019	2018	Change
Dividends	183,122	156,720	26,402
Acea Ato 2	64,190	45,500	18,690
areti	59,928	78,246	(18,318)
Acea Elabori	19,049	14,993	4,056
Acea Ambiente	23,540	7,992	15,548
Acque Blu Fiorentina	5,229	5,251	(23)
Acea Produzione	3,158	0	3,158
Aquaser	2,844	3,310	(466)
Acea800	378	808	(429)
Acea International	887	0	887
Acque Industriali	0	176	(176)
Intesa Aretina	638	0	638
Geal	269	230	38
Acque Blu Arno Basso	0	178	(178)

(follows)

€ thousand	2019	2018	Change
Ingegnerie Toscane	433	35	398
Agua Azul Bogotá	2,579	0	2,579
Revaluation of the Sarnese Vesuviano Srl shareholding	0	21,247	(21,247)
Total	183,122	177,966	5,155

Equity investment costs amounted to € 1,488 thousand as at 31 December 2019 while they were € 15,893 thousand as at 31 December 2018. This includes the write-downs of the investment in Acea Liquidation and Litigation Srl for € 1,481 thousand.

10. Taxes – € 11,495 thousand

Taxes totalled € 11,495 thousand. In particular, the tax calculation is affected by the tax law applicable to the tax treatment of the collected dividends, the provisions for the provision for risks, as well as the deductibility of the interest expense of Acea for the Group tax consolidation. Income taxes for the year have an impact on the pre-tax result of 5.2%.

The balance consists of the algebraic sum of the following items.

CURRENT TAXES

Current taxes amounted to € 84,685 thousand (€ 92,134 thousand as at 31 December 2018) and refer to consolidated IRES calculated on the sum of taxable income and tax losses of the companies consolidated on a tax basis and IRAP.

It should be noted that this effect is cancelled by the recognition of income deriving from the attribution of the taxable income of the companies participating in the tax consolidation.

In 2018 the amount of € 2,214 thousand referred to capital gains taxes paid to SUNAT as part of the project involving the transfer of foreign subsidiaries from Acea to Acea International.

This effect is summarised in the table below and shows the reconciliation between the theoretical and actual rates.

DEFERRED TAXES

Net deferred tax assets decreased by € 513 thousand and consisted of the algebraic sum of provisions (€ 3,842 thousand) mainly on the provision for risks, the allowance for doubtful receivables and provisions for defined benefit plans and utilisations (€ 3,328 thousand). Deferred tax liabilities increase by € 1,267 thousand and relate only to provisions.

CHARGES AND INCOME FROM TAX CONSOLIDATION

These amount to € 73,945 thousand and represent the positive balance between the tax charges that the Parent Company has towards tax consolidation companies against the transfer of tax losses (€ 2,623 thousand) and the tax income recorded as a counterpart of the taxable income transferred to the consolidated company (€ 76,567 thousand).

The compensation for the loss, as per the general consolidation regulation, is determined by applying the current IRES rate to the amount of the tax loss transferred.

The table below shows the reconciliation between the theoretical and actual tax rates.

	31/12/2019	%	31/12/2018	%
Pre-tax result of operating activities	219,983		161,708	
Expected tax charge at 27.5% on profit before tax	52,796	24.0%	38,810	24.0%
Permanent differences*	(43,973)	(20.0%)	(30,775)	(19.0%)
IRES for the period**	9,204	4.2%	12,621	7.8%
IRAP for the period**	2,291	1.0%	1,311	0.8%
Taxes on the operating income of operating assets	11,495	5.2%	13,932	8.6%

* They mainly include the taxed portion of dividends.

** Including deferred tax.

NOTES TO THE BALANCE SHEET – ASSETS

11. Tangible fixed assets – € 98,885 thousand

€ thousand	31/12/2019	31/12/2018	Change
Land and buildings	78,337	79,883	(1,546)
Plants and machinery	12,272	10,243	2,029
Industrial and commercial equipment	972	670	302
Other assets	5,542	6,642	(1,100)
Assets under construction and advances	1,762	31	1,731
Total property, plant and equipment	98,885	97,469	1,416

There is an increase of € 1,416 thousand compared to the value of 31 December 2018.

The change mainly refers to the net effect between investments, totalling € 8,087 thousand, and the amortisation charges that amounted to € 6,671 thousand.

Investments during the period include the Telecontrol devices of the Public Lighting network in the Municipality of Rome, created by Acea

at the request of Roma Capitale in fulfilment of the service contract.

The other investments of the period mainly relate to extraordinary maintenance on the offices used for business activities, in addition to the investments relating to the hardware required for technological development projects for the improvement and evolution of the IT network and computers.

The table below summarises the changes occurred in the period.

€ thousand	31/12/2018			CHANGES					31/12/2019		
Tangible fixed assets	Historic cost	Accumulated depreciation	Net value	Increases	Reclassifications/ Other changes	Divestments/ Disposals	Depreciation	Cost	Accumulated depreciation	Net value	
Land and buildings	101,890	(22,007)	79,883	627	0	0	(2,173)	102,517	(24,180)	78,337	
Plants and machinery	24,306	(14,063)	10,243	4,138	0	0	(2,109)	28,444	(16,172)	12,272	
Industrial and commercial equipment	13,404	(12,734)	670	7	407	0	(112)	13,819	(12,847)	972	
Other assets	54,911	(48,269)	6,642	1,176	0	0	(2,277)	56,088	(50,546)	5,542	
Assets under construction and advances	31	0	31	2,138	(407)	0	0	1,762	0	1,762	
Total tangible fixed assets	194,542	(97,072)	97,469	8,087	0	0	(6,671)	202,629	(103,744)	98,885	

12. Investment property – € 2,431 thousand

These amount to € 2,431 thousand, a reduction of € 58 thousand due to the depreciation of the year and consist mainly of land and

buildings not used for production and held for rental purposes.

13. Tangible fixed assets – € 24,283 thousand

€ thousand	31/12/2019	31/12/2018	Change
Industrial patents and intellectual property rights	16,076	9,322	6,755
Concessions and trademarks	9	54	(45)
Assets under construction and advances	8,198	2,387	5,811
Total intangible fixed assets	24,283	11,763	12,521

Below is a summary of the changes occurred during the period:

€ thousand	31/12/2018		Changes in the year			31/12/2019
	Net value	Increases	Reclassifications/ Other changes	Divestments/ Disposals	Depreciation	Net value
Intangible Fixed Assets						
Industrial patents and intellectual property rights	9,322	4,975	5,576	0	(3,797)	16,076
Concessions and trademarks	54	0	0	0	(45)	9
Fixed assets under construction	2,387	11,387	(5,576)	0	0	8,198
Total tangible fixed assets	11,763	16,362	0	0	(3,842)	24,283

Investments mainly concerned the purchase and development of software to support the development of systems for managing IT platforms, corporate security and administrative management.

1 January 2019 are recognised as leased assets and amortised over the duration of the contracts following the application of the new IFRS 16 international standard (for further details, see the section “Effects of the introduction of new accounting standards”). At 31 December 2019 the net book value of these assets was € 15,746 thousand.

14. Right of use – € 15,746 thousand

This item includes rights to use the assets of others, which as of

€ thousand	31/12/2019
Land and buildings	14,416
Cars and motor vehicles	1,330
Total	15,746

The table below shows the changes during the period:

€ thousand	Land and buildings	Cars and Vehicles	Total
Opening balance 01/01/2019	18,024	1,184	19,209
New contracts	329	790	1,119
Remeasurement	1	0	0
Depreciation/amortisation	(3,939)	(644)	(4,583)
Total 31/12/2019	14,416	1,330	15,746

There are also no guarantees on residual value, variable payments and leases not yet signed to which Acea has committed itself for a significant amount. Finally, it should be noted that costs relating to short-term leases and assets of modest value are recognised in the income statement item “leases and rentals” in line with the

requirements of IFRS 16 and in continuity with previous years.

15. Investments in subsidiaries and associates – € 1,813,914 thousand

These recorded an increase of € 21,877 thousand and is as follows:

€ thousand	31/12/2019	31/12/2018	Change
Investments in subsidiaries	1,792,439	1,770,567	21,872
Shares held in affiliate companies	21,475	21,470	5
Total shares held	1,813,914	1,792,038	21,877

Shares held in subsidiaries

Changes for 2019 are summarised below.

Shares held in subsidiaries	Historical cost	Reclassifications and other changes	Write-ups/ write-downs	Disposals	Net value
Values at 31 December 2018	3,163,397	(376,507)	(55,842)	(960,479)	1,770,568
2019 changes:					
- changes in share capital	20,306	0	0	0	20,306
- acquisitions / formations	4,305	0	0	0	4,305
- disposals / distributions	0	0	0	0	0
- reclassifications and other changes	0	0	0	(962)	(962)
- write-downs / write-ups	0	0	(1,777)	0	(1,777)
Total changes in 2019	24,611	0	(1,777)	(962)	21,872
Values at 31 December 2019	3,188,007	(376,507)	(57,619)	(961,441)	1,792,440

The changes occurred mainly concern:

- € 20,306 thousand are related to:
 1. € 11,564 thousand relate to the recapitalisation of Acea Ato 5 through the creation of an equity reserve to cover operating losses by means of the remission of the interest receivable accrued as at 31 December 2018 on the loan for the same amount;
 2. € 8,742 thousand relate to the capital increase of Acea International through the creation of an equity reserve in order to finance the purchase of further shares in the company Consorcio Agua Azul.
- € 4,305 thousand are mainly related to:
 1. € 4,290 thousand for the acquisition on 18 March 2019 of 51% of the share capital of the company Pescara Distribuzione Gas, engaged in the distribution of methane gas in the Municipality of Pescara;
 2. € 10 thousand for the establishment of Acea Innovation Srl on 25 June 2019 with start of activity on 4 July 2019, which has the objective of researching innovations and start-ups to start experimental projects in order to apply innovative ideas to real cases, together with Group companies, as well as some collaborative initiatives in funded projects.
- € 1,481 thousand for the write-down of the investment in Acea Liquidation and Litigation.

For purposes of verifying the recoverable value of investments, the impairment test was carried out substantially on all its direct and indirect subsidiaries.

The impairment procedure for equity investments compares the carrying amount of the investment with its recoverable value, identified as the higher of value in use and fair value, net of selling costs. The value in use represents the present value of expected cash flows that are expected to derive from the continuous use of all assets relating to the investment. The fair value, net of sales costs, represents the amount obtainable from the sale in a free transaction between knowledgeable and willing parties.

The 2019 impairment process provides the estimate of an interval relative to the recoverable value of individual investments in terms of value in use in methodological continuity with respect to the

previous year, or through the financial method that recognises the ability to generate cash flows the essential element for assessing the reference entity. For the purpose of discounting operating cash flows, the weighted average cost of post-tax capital is used.

The estimate of the recoverable value of investments – expressed in terms of value in use – was estimated by the combined use of the financial method and sensitivity analyses on the discount rate (WACC).

The application of the financial method for determining the recoverable value and the subsequent comparison with the respective accounting values, therefore, entailed the estimate of the post-tax wacc, of the value of operating flows (VO) for each investment subject to impairment test and the value of the terminal value (TV) and, in particular, the growth rate used to project flows beyond the timescale, the value of the net financial position (NFP) and the value of ancillary activities (ACC).

For purposes of determining operating flows and the Terminal Value, the estimates and projections of the latest Business Plan approved by the Board of Directors were used. Specifically:

- the development of revenues for regulated businesses was drawn up on the basis of tariff trends resulting from national regulation and/or agreements with the regulatory authorities;
- the dynamics of the prices of electricity and gas sold and purchased on the free market were developed on the basis of business considerations consistent with the energy scenario developed in the business plan;
- the inertial evolution of the Group's costs over the course of the plan was developed by formulating hypotheses based on the set of information available at the time the plan was drawn up.

After the last year of the plan, normalised free cash flow equal to the value of the net operating margin of the plan years was considered.

The recoverable value of the investments was determined as the sum of the present value of cash flows of the Plan and of the current value of the Terminal Value.

The following table shows the operating segments to which the investments recorded in the financial statements of the Parent Company refer. For each operating segment, the type of recoverable value considered, the discount rates used and the time scale of cash flows are specified.

Industrial Area	Recoverable value	WACC	Terminal value	Cash flow period
Energy Infrastructure Segment				
<i>areti</i>	value in use	5.9%	Regulatory Asset Base (RAB)	Until 2022
Acea Produzione	value in use	4.8%	NIC/perpetuity at the end of the plants' useful life	Useful life of plants/end of concession
Ecogena	value in use	4.8%	NIC at the end of the plants' useful life	Plants' useful life
Water Segment	value in use	5.2%	Regulatory Asset Base (RAB)	End of the concession
Commercial and Trading Segment	value in use	6.2%	Perpetuity without growth	Until 2022
Overseas Segment	value in use	12.0%	NIC at the end of the concession	End of the concession
Environment Segment	value in use	5.3%	NIC at the end of the plants' useful life	Plants' useful life

Terminal value is calculated:

- for Acea Produzione: considering the contribution to the cash flows of the various plants until the end of the hydroelectric concessions and the useful life of the photovoltaic plants and Tor di Valle. The disposal value of the S. Angelo plant, assumed to be completed by 2024, takes into account the approval of the "Simplification Decree" which took place in February 2019. This value was determined on the basis of a valuation corresponding to the revalued carrying amount;

- for the Environment Segment considering the residual value corresponding to the net invested capital at the end of the plants' useful life;
- for *areti*: considering the current value of the RAB at the expiry of the concession calculated according to the regulations for the fifth regulatory period;
- for the Water Segment: considering the current value of the RAB at the end of the concession.

It should also be noted that the WACC was the subject of a sensitivity analysis, so that a 0.5% increase in the discount rate would lead to a deficit in the Acea Ato 5 stake.

The result of the impairment test confirmed the recoverability of the value of the recorded goodwill.

Shares held in affiliate companies

These amounted to € 21,475 thousand and only changed in 2019 due to the adjustment to the exchange rate of Aguazul Bogotá (they were € 21,470 as at 31 December 2018).

The changes occurred during the year are shown below.

Shares held in associate companies	Historical cost	Reclassifications	Write-ups/ Write-downs	Disposals	Net value
Values at 31 December 2018	94,570	13,600	(80,839)	(5,861)	21,470
2019 changes:					
changes in share capital	0	0	0	0	0
acquisitions / formations	0	0	0	0	0
disposals / distributions	0	0	0	0	0
reclassifications and other changes	0	0	0	0	0
write-downs / write-ups	0	0	5	0	5
Total changes in 2019	0	0	5	0	5
Values at 31 December 2019	94,570	13,600	(80,834)	(5,861)	21,475

16. Other equity investments – € 2,352 thousand

“Other equity investments” refer to investments in equity securities that do not constitute control, association or joint control. There were no movements during the year.

17. Deferred tax assets – € 18,636 thousand

These decreased by € 1,432 thousand compared to 31 December 2018.

The following table shows the changes and the balance as at 31 December 2019, distinguishing the Assets for Prepaid Taxes from the Provision for Deferred Taxes.

With regard to the recoverability of deferred tax assets, it must be noted that the valuation of deferred tax assets was carried out on the basis of Acea’s business plans and, with regard to the time scale, considering a reasonable estimate of the reversal period.

Changes in the period

€ thousand	31/12/2018	IRES/ IRAP uses	Other changes	Changes in SE	IRES/IRAP advances	31/12/2019
Prepaid taxes						
Tax losses	0	0			0	0
Remuneration of members of the BoD	10	(2)			5	14
Provision for risks and charges	3,856	(1,300)	(1,792)		2,166	2,930
Write-down of investments	0	0			0	0
Provision for doubtful accounts	7,463	(450)	3,454	0	942	11,410
Depreciation and amortisation of tangible and intangible assets	1,658	(101)	(1,627)	0	326	256
Goodwill amortisation	0	0			0	0
Defined benefit plans/defined contribution	7,342	(1,338)	(35)	(835)	402	5,536
Others	7,052	(139)		(1,194)	0	5,720
Total	27,383	(3,329)	(0)	(2,029)	3,842	25,867
Deferred taxes						
Deferred taxes on dividends	128	0	0		0	128
Depreciation and amortisation of tangible and intangible assets	27	0		0	39	67
Defined benefit plans/defined contribution	316	0		(79)	0	237
Others	6,843	0	0	(1,272)	1,228	6,799
Total	7,314	0	0	(1,351)	1,267	7,230
Net total	20,069	(3,329)	(0)	(678)	2,574	18,636

18. Non-current financial assets – € 226,671 thousand

This item decreased by € 715 thousand compared to 31 December 2018, as it amounted to € 227,385 and is broken down as follows:

€ thousand	31/12/2019	31/12/2018	Change
Financial receivables due from Roma Capitale	15,227	18,697	(3,471)
Financial receivables due from subsidiaries	192,645	185,428	7,217
Receivables from others	18,798	23,260	(4,461)
Total	226,671	227,385	(715)

The item **Financial receivables due from Roma Capitale** shows a decrease of € 3,471 thousand and refers to investments in the Public Lighting service, such as plant redevelopment, energy saving, regulatory compliance and technological innovation, which will be paid to Acea, equal to the tax depreciation, beyond the year 2019, in accordance with what was agreed in the Supplementary Agreement to the service contract signed on 15 March 2011.

Financial receivables from subsidiaries increased by € 7,217 thousand compared to 31 December 2018. With regard to financial receivables due from Acea Ato 5, the short-term portion of the non-interest-bearing receivable has been reclassified since its repayment under the payment plan has been postponed. The change relating to Crea Gestioni is due to a new interest-bearing loan of € 1,000 thousand. These receivables are considered entirely recoverable.

€ thousand	31/12/2019	31/12/2018	Change
Receivables from financing			
Acea Ato 5	187,742	181,525	6,217
Crea Gestioni Srl	4,870	3,870	1,000
Ecomed Srl	33	33	0
Total non-current Financial Receivables from Subsidiaries	192,645	185,428	7,217

The item **Receivables due from others**, amounting to € 18,798 thousand, is composed of € 18,673 thousand from the application of the financial asset model envisaged by IFRIC 12 regarding services under concession. This receivable represents all the investments made up to 31 December 2010 related to the service itself.

19. Other non-current assets – € 0 thousand

This item did not record changes compared to the previous year.

20. Current assets – € 3,517,007 thousand

These recorded an increase of € 323,821 thousand (€ 3,193,186 thousand as at 31 December 2018) and are broken down as follows.

20.a – Contract work in progress – € 0 thousand

The balance as at 31 December 2019 is zero.

20.b – Trade receivables – € 747 thousand

Trade receivables increased by € 15 thousand compared to € 731 thousand at 31 December 2018.

Trade receivables

These amounted to € 747 thousand net of the allowance for doubtful receivables amounting to € 2,124 thousand and increased by € 15 thousand. Receivables included under this item refer to positions ac-

rued in respect of private and public entities for services rendered. During 2019, part of the receivables from the Municipality of Naples relating to Public Lighting services were collected.

Provision for doubtful debts

This amounted to € 2,124 thousand and decreased by € 1,677 thousand compared to the previous year mainly due to the release to the income statement of the provision for receivables from the Municipality of Naples collected in May.

The estimate of the amounts considered non-collectable is estimated based on the provisions of IFRS 9, or, through the application of the expected credit loss model for the evaluation of the recoverability of the financial assets based on a predictive approach, based on the prediction of the counterparty's default (so-called probability of default) and of the ability to recover if the default event occurs (so-called loss given default).

20.c – Intercompany trade receivables – € 98,372 thousand

These saw an increase of € 10,159 thousand compared to 31 December 2018 (then € 88,213 thousand). Please note that the comparative figures as at 31 December 2018 have been reclassified from the published data in order to provide a better understanding of the changes that occurred following the line-by-line consolidation of Adf from 7 October 2019. Below is their composition:

€ thousand	31/12/2019	31/12/2018	Change
Receivables due to the parent company – Roma Capitale	47	28	18
Receivables from subsidiaries	91,788	80,815	10,973
Receivables from associates	6,538	7,370	(832)
Total intragroup trade receivables	98,372	88,213	10,159

Receivables due to the parent company – Roma Capitale

The following table shows together the amounts resulting from the relations with Roma Capitale from Acea, both with regard to the

borrowing and lending due within and beyond the following year, including items of a financial nature.

€ thousand	31/12/2019	31/12/2018	Change
Receivables for services invoiced	41	28	12
Receivables for services to be invoiced	6	0	6
Total trade receivables	47	28	18
Financial receivables for invoices issued	138,798	99,024	39,774
Provision for write-downs	(30,152)	(30,152)	0
Financial receivables for invoices to be issued	39,195	25,754	13,441

(follows)

€ thousand	31/12/2019	31/12/2018	Change
Provision for write-downs	(14,960)	(9,843)	(5,117)
Medium/long-term financial receivables	15,227	18,697	(3,471)
Total Financial Receivables for Public Lighting	148,107	103,480	44,627
Total Receivables	148,154	103,508	44,646
Payables	(77,252)	(422)	(76,830)
Dividend payables	(77,114)	0	(77,114)
Other payables	(139)	(422)	283
Total (payables)	(77,252)	(422)	(76,830)
Net balance	70,901	103,086	(32,185)

The variation of receivables and payables is determined only by period accruals.

During the year receivables grew by € 44,646 thousand was recorded compared to the previous year, to be attributed to the accrual during the period of receivables relative to the Public Lighting service agreement, to the modernisation of security, to extraordinary maintenance, to the LED plan agreement and to the works relating to the Public Lighting service.

Compared to the previous year, on the payables side there was an overall increase of € 76,830 thousand due to the recognition of the payable for Acea share dividends accrued in 2018 and amounting to € 77,114 thousand as per the Shareholders' Meeting resolution of last April 2019.

As described in the Financial Statements as at 31 December 2018 as part of the activities required for the first consolidation of the Acea Group in the 2018 Financial Statements of Roma Capitale, a round table was launched to reconcile the Municipality's Receivables and Payables. After several meetings and communications, on 22 February 2019 the technical department of the Municipality in charge of the management of the contracts with the Acea Group communicated several objections relating to the supply of both works and services for the period 2008-2018. These objections were fully rejected by the Group.

On 26 February 2019 the General Management of the Municipality of Rome sent a communication stating that it had taken note of the objections raised by the technical department and the lack of recognition thereof by the Acea Group, and in order to find a complete reso-

lution of the differences it proposed setting up a Joint Technical Committee with the Acea Group that could resolve the mutual claims. Following several meetings, on 18 October 2019 the Joint Technical Committee drew up a report on the closure of the work, highlighting the results that emerged and proposing a favourable restart of the ordinary execution of the mutual obligations between the Acea Group and Roma Capitale. As a first step after the completion of the work, the parties took steps to implement the results that emerged from the discussions, restarting the payment of their respective receivables and payables.

In particular, in February 2020 the Public Lighting receivables for € 10,463 thousand were offset against the 2018 and 2016-2018 pro-rata amounts in exchange for Acea's share dividends for the year 2018.

Also note that in December 2019 Roma Capitale approved its Consolidated Financial Statements, including for the first time the Acea Group in this scope of consolidation.

Receivables from subsidiaries

These totalled € 91,788 thousand and increased by € 10,973 thousand compared to the previous year. They mainly refer to services rendered under service contracts and receivables deriving from the allocation of costs incurred for the joint IT platform.

The comparative values as at 31 December 2018 were the subject of reclassifications in respect of published data for the purpose of better understanding the changes. Below is their composition:

€ thousand	31/12/2019	31/12/2018	Change
Acea Ato 2	10,702	14,595	(3,893)
Acea Ato 5	33,391	21,374	12,017
areti	18,439	16,035	2,404
Acea Energia	6,750	10,559	(3,808)
Acea Produzione	832	301	531
Gesesa	6,265	5,484	781
Gori	1,330	1,299	31
Crea Gestioni	4,666	3,997	669
Acea8cento	55	470	(415)
Acea Elabori	1,036	435	601
Sarnese Vesuviano	778	778	0
Acea Ambiente	1,015	771	244
Acea Dominicana	596	524	72
Aquaser	49	761	(712)
Acque Industriali	791	478	313
Agua de San Pedro	414	603	(189)
Umbriadue Servizi Idrici	968	598	370
Ecogena	55	87	(32)

(follows)

€ thousand	31/12/2019	31/12/2018	Change
Acea International	48	30	18
Acea Innovation	457	0	457
AdF	2,402	1,455	947
Bioecologia	262	2	261
Acea Perù	104	29	75
Acea Liquidation and Litigation Srl	89	0	89
Others	293	148	145
Total	91,788	80,815	10,973

Receivables from associates

These total € 6,538 thousand and show a reduction of € 832 thousand compared to 31 December 2018. The comparative values as at 31 December 2018 were the subject of reclassifications in respect of published data for the purpose of better understanding

the changes. For companies subject to joint control, they refer mainly to services rendered in the context of IT service contracts and receivables deriving from the allocation of costs incurred for the joint IT platform.

Below is their composition:

€ thousand	31/12/2019	31/12/2018	Change
Publiacqua	1,627	1,615	12
Umbra Acque	1,736	2,058	(323)
Acque	1,557	1,591	(35)
Ingegnerie Toscane	86	106	(20)
Geal	23	58	(34)
Coema	162	140	22
Marco Polo	1,236	1,236	0
Sogea	46	69	(23)
Integrated Water Services	17	33	(16)
Azga Nord	0	403	(403)
Other	47	59	(11)
Total	6,538	7,370	(832)

20.d – Other current assets – € 32,435 thousand

These recorded an increase of € 535 thousand and are made up as follows.

€ thousand	31/12/2019	31/12/2018	Change
Receivables due to the transferee Area Laurentina	6,446	6,000	446
Accrued income and prepayments	4,888	4,884	4
Other receivables	555	471	84
Receivables for the re-entry of the Marco Polo branch for payables to employees	1,931	1,931	0
Receivables from national insurance institutions	295	363	(69)
Receivables linked to the sale of the photovoltaic branch	146	146	0
Receivables due to severance pay for individual transfers	55	0	55
Advances to suppliers and deposits with third parties	0	0	(0)
VAT receivables	17,720	17,740	(20)
Other tax receivables	399	365	35
Total	32,435	31,901	535

The receivable from the assignee Area Laurentina at 31 December 2019 increased by € 446 thousand due to the recording of interest and expenses recognised in the order approved by the judge with an ordinance dated 11 February 2020 (for further information please refer to the section “Update on major disputes and litigation”). Accrued income and prepaid expenses mainly include IT infrastructure maintenance and IT services, insurance contracts and insurance premiums.

20.e – Current financial assets – € 146,783 thousand

There was an increase of € 140,991 thousand mainly due to the recognition of the receivable due from the AGCM as a result of the order of the receivable rulings annulling the fine of € 16,263 thousand (i.e. the fine including interest paid) and for a short-term deposit of € 125,000. Information on the balance at 31 December 2019 is shown below.

€ thousand	31/12/2019	31/12/2018	Change
Receivables for managing the Public Lighting service	5,040	5,283	(243)
Receivables from the Competition Authority	16,263	0	16,263
Receivables on short-term deposits	125,000	0	125,000
Accrued income on short-term deposits	29	0	29
Receivables from SEIN from Liquidation of Acea Ato 5 Servizi	274	274	0
Accrued income on bank account and post office	177	235	(58)
Total	146,783	5,791	140,991

20.f – Intragroup current financial assets – € 2,539,759 thousand

This item recorded a growth of € 465,158 thousand. Information is provided in the table below.

€ thousand	31/12/2019	31/12/2018	Change
Receivables from parent companies – Roma Capitale	132,881	84,783	48,098
Receivables from subsidiaries	2,406,879	1,988,919	417,960
Receivables from associates	0	900	(900)
Total	2,539,759	2,074,601	465,158

Receivables from parent companies – Roma Capitale

These amount to a total of € 132,881 thousand and refer to receivables due from Roma Capitale relating to the Public Lighting service contract as anticipated in the section of this document “Trade receivables due from Roma Capitale”.

Receivables from subsidiaries

These amount to € 2,406,879 thousand (€ 1,988,919 thousand at 31 December 2018) and are composed as follows:

€ thousand	31/12/2019	31/12/2018	Change
Receivables from cash pooling relationships	2,247,298	1,830,202	417,096
Accrued current financial assets on loans and cash pooling relationships	135,472	126,118	9,354
Receivables from subsidiaries for loans	18,625	26,242	(7,617)
Other receivables from subsidiaries	1,486	1,486	0
Receivables for commissions on guarantees given	3,998	4,871	(873)
Total	2,406,879	1,988,919	417,960

The change with respect to the end of the previous year mainly derives from the increase in current account balances with the group companies that have joined a revolving loan line, to cover the needs for working capital and investments, which accrues interest at a fixed rate, defined on the basis of the rates applied on the capital market for the so-called issues hybrid in the utilities sector updated on an annual basis, increased by a spread linked to the level of exposure and the reversal of the parent company’s rating costs.

There was a decrease in receivables from subsidiaries for loans. This decrease is mainly attributable to Acea Ato 5 due to the

reclassification of the receivable to a medium/long-term position as the repayment plan for the non-interest-bearing loan granted was revised.

Receivables from associates

As at 31 December 2019 these were written off following the collection of the shareholders’ loan to Azga Nord.

20.g – Current tax assets – € 10,766 thousand

These decreased by € 2,631 thousand compared to the end of the previous year, and the composition is shown below:

€ thousand	31/12/2019	31/12/2018	Change
IRES receivables for payments on account	2,624	1,211	1,413
Total receivables from the tax authorities	2,624	1,211	1,413
Tax consolidation receivables due from subsidiaries	8,142	12,185	(4,044)
Total tax receivables	10,766	13,397	(2,631)

VAT receivables derive from the Group VAT settlement procedure; the amount represents the receivable for the side paid at the end of December 2019.

The IRES receivable of € 2,624 thousand derives from excess payments made during the year compared to the tax calculated for the 2019 financial year.

20.h – Cash and cash equivalents – € 688,145 thousand

These recorded an increase of € 290,407 thousand (€ 978,552 as at 31 December 2018) and represent the balance of bank and postal current accounts opened at the various credit institutions as well as at Ente Poste.

NOTES TO THE BALANCE SHEET – LIABILITIES

21. Shareholders' equity – € 1,628,812 thousand

€ thousand	31/12/2019	31/12/2018	Change
Share capital	1,098,899	1,098,899	0
Legal reserve	119,336	111,948	7,389
Reserve for own shares	0	0	0
Other reserves	75,157	77,973	(2,815)
Profits carried forward	126,931	137,452	(10,522)
Profit (loss) for the year	208,488	147,776	60,712
Total	1,628,812	1,574,048	54,764

Shareholders' equity increased by € 54,764 thousand compared to 31 December 2018. This change is mainly due to the profit reported in the year and to the effects generated by the allocation of the result achieved in 2018 equal to € 0.71 per share, as well as the changes in other reserves.

The composition and changes per item are shown below:

21.a – Share capital – € 1,098,899 thousand

This amounts to € 1,098,899 thousand and is represented by 212,964,900 ordinary shares with a par value of € 5.16 each, as shown in the Shareholders' Register. The share capital is subscribed and paid-up in the following manner:

- Roma Capitale: 108,611,150 for a total nominal value of € 560,434 thousand,
- Market: 103,936,757 shares for a total par value of € 536,314 thousand.
- Treasury Shares: 416,993 ordinary shares with a total nominal value of € 2,151 thousand.

21.b – Legal reserve – € 119,336 thousand

It includes 5% of the profits of the previous financial years as required by article 2430 of the Italian Civil Code.

At 31 December 2019 there was an increase of € 7,389 thousand compared to the previous year, due to the allocation of profit achieved in 2018.

21.c – Reserve for treasury shares in portfolio – € 0 thousand

Pursuant to art. 2428 of the Italian Civil Code, there are 416,993 treasury shares in the portfolio, with a nominal value of € 5.16 each (€ 2,152 thousand in total) and correspond to 0.196% of the share capital.

The reserve for treasury shares in portfolio amounted to € 3,853 thousand at 31 December 2018. The amount of the reserve coincides with the value of shares in the portfolio accounted for as a reduction of the Shareholders' Equity in accordance with IAS 32.

21.d – Other reserves – € 75,157 thousand

The composition of the Item and the changes for the period are provided below:

€ thousand	31/12/2019	31/12/2018	Change
Extraordinary reserve	180	180	0
Demerged capital gains reserve	102,567	102,567	0
Reserve for exchange differences	691	4,718	(4,028)
Valuation reserve for financial instruments	(16,877)	(20,658)	3,781
Reserve for actuarial gains and losses	(11,602)	(9,034)	(2,568)
Other miscellaneous reserves	198	198	0
Total	75,157	77,973	(2,815)

The reserve for differences in exchange records a decrease of € 4,028 thousand and represents the effect of the valuation at the exchange rate on 31 December 2019 of the private placement in YEN stipulated in 2010.

The cash flow hedge reserve is negative and stands at € 16,877

thousand. This reserve includes € 3,333 thousand for the negative difference deriving from the delta of conversion rates between that provided for in the hedging contract and that recorded on the adjustment date of the bond (3 March 2010).

The table below shows available and unavailable reserves.

Nature/Description	Amount	Possibility of use	Available portion	Summary of use made in the previous three years	
				Loss coverage	Other reasons
Capital reserves:					
Reserve deriving from the ARSE spin-off	6,569	A, B, C	6,569		
Profit reserves from the Income Statement:					
Legal reserve	119,336	A, B	119,336		
Extraordinary reserve	180	A, B, C	180		
Demerged capital gains reserve	102,567	A, B, C	102,567		
Retained earnings	126,931	A, B, C	126,931		
Profit reserves from O.C.I.:					
Cash flow hedge reserve	(16,877)		(16,877)		
Reserve for exchange differences	691		691		
Reserve for actuarial gains and losses	(11,602)		(11,602)		
Other reserves					
Increased acquisition cost Umbra Acque	(3,173)		(3,173)		
Increased acquisition cost SAMACE	(785)		(785)		
Increased acquisition cost Kyklos	(1,932)		(1,932)		
Reservation reserve Acea International	239		239		
FTA IFRS 9 reserve	(719)		(719)		
Reserve for available treasury shares	0	A, B, C	0		
Reserve for own shares	3,853	Guarantee of treasury shares	3,853		
Total	325,278		325,278		
Non-distributable share			89,030		
Residual distributable portion			236,248		

*Legend:

A = for capital increase – B = to cover losses – C = for distribution to shareholders.

22. Employee severance indemnity and other defined benefit plans – € 23,323 thousand

It decreased by € 190 thousand and reflects severance indemnities and other benefits to be paid subsequently to the perfor-

mance of the work activity to employees. Within the obligations that make up this item, we need to highlight the defined contribution plans and defined benefit plans. The following table shows the composition:

€ thousand	31/12/2019	31/12/2018	Change
Benefits due at the time of termination of employment			
- Employee severance indemnity	6,714	7,281	(568)
- Extra months	1,500	1,438	62
- LTIP plans	1,945	2,009	(64)
Total	10,159	10,729	(570)
Post-employment benefits			
- Tariff subsidies	13,163	12,783	380
Total	23,323	23,512	(190)

With regard to the calculation method, it must be noted that the benefits due at the time of termination of the employment relationship are determined according to actuarial criteria; with reference to post-employment benefits, the calculation is based on the “projected unit credit method” which is based on assessments that

express corporate liability as the current average value of future benefits, pro rated based on the service provided by the employee at the time calculation with respect to that corresponding at the time of payment of the service.

The change is affected 1) by the provisions for the period, 2) by the

outflows that occurred during the period and 3) by the decrease in the rate used for the valuation of the liabilities.

In particular, with regard to the economic-financial scenario, the discounting rate used for the valuation was of 0.77% against a rate used last year of 1.57%.

As required by paragraph 78 of IAS 19, the interest rate used to determine the current value of the obligation was determined with reference to the yield on the valuation date of securities of primary companies in

the financial market to which Acea belongs and to the return on outstanding government bonds on the same date with a duration comparable to the residual duration of the collective of workers analysed; it must be noted that, due to internal consistency of assessment and alignment with the requirements of IAS 19, the same technical bases have been maintained for the various types of plans.

Furthermore, the parameters used for the evaluation are shown below:

	December 2019	December 2018
Discount rate	0.77%	1.57%
Revenue growth rate (average)	1.59%	1.59%
Long-term inflation	1.00%	1.50%

In reference to Group Employee Benefits (Severance Plan, Additional Salary Payment, Rates Rebates for active and pensioned employees) a sensitivity analysis was performed in order to value

the variations in liability resulting from the flat variations, both positive and negative, of the rates' curve (shift + 0.5% – shift - 0.5%). The results of this analysis are summarised below.

Plan type	Discount Rate	
	+0.5%	-0.5%
€ thousand		
Employee severance indemnities (TFR)	-346	365
Tariff subsidies	-529	568
Extra months	-75	86
LTIP	1,508	1,531

In addition, a sensitivity analysis was carried out in relation to the age of the workforce, assuming one year less than the actual age.

Plan type	-1 year of age	
	€ thousand	
Employee severance indemnities (TFR)		-2
Tariff subsidies		68
Extra months		-662

Sensitivity analyses were not performed for other variables such as, for example, inflation rate.

23. Provision for risks and charges – € 15,882 thousand

The table below details the composition by nature and the changes compared to the end of the previous year:

€ thousand	31/12/2018	Uses	Release due to surplus funds	Provisions	31/12/2019
Investees	5,727	0	0	0	5,727
Legal	1,173	(155)	0	1,256	2,274
Risks contributing and relating to national insurance and welfare institutions	734	(39)	0	32	728
Procurement and supplies	883	0	(12)	0	872
Early retirements and redundancies	4,191	(4,191)	0	6,036	6,036
Taxes	2,700	(2,455)	0	0	245
Other risks and charges	0	0	0	0	0
Total	15,408	(6,840)	(12)	7,325	15,882

The main changes concerned:

- the provision for risks related to legal disputes was used for € 155 thousand for unfavourable judgements, and further provisions for the year of € 1,256 thousand were appropriated;
- the provision set aside for redundancy and mobility plans used for € 4,191 thousand as the relevant procedures have been completed.

- furthermore, € 6,036 thousand was also set aside for the same integrated plan as the iso-pension retirement forecasts;
- the provision for tax litigation risks was used for € 2,455 thousand.

For further details, see the information provided in the section "Update on major disputes and litigation".

24. Non-current borrowings and financial liabilities – € 3,170,895 thousand

The breakdown is as follows:

€ thousand	31/12/2019	31/12/2018	Change
Medium and long-term bonds	2,754,298	2,678,392	75,906
Medium/long-term borrowings	405,151	446,179	(41,028)
IFRS 16 financial payables	11,446	0	11,446
Total	3,170,895	3,124,571	46,324

Medium and long-term bonds

On 23 May 2019, Acea successfully completed the placement of a non-convertible bond for a total principal amount of € 500 million, maturing on 23 May 2028 and at a rate of 1.750%, under the € 3,000,000,000 Euro Medium Term Notes (EMTN) programme, with the Base Prospectus as last amended on 18 July 2018 and subsequently supplemented on 15 May 2019. It should be noted that following the update of the EMTN programme, specifically in July 2019, it was raised to € 4,000,000,000. The bonds are governed by English law. Starting from the settlement date, the bonds are listed on the regulated market of the Luxembourg Stock Exchange, where the prospectus was filed.

The 10-year bond issued by Acea in March 2010, maturing on 16 March 2020, was reclassified as a short-term position. Its value (including the costs associated with the stipulation) is € 422,686 thousand. Interest accrued during the period amounted to € 15,126 thousand. This residual debt, after the purchase and cancellation of bonds for a nominal value of € 77,225 thousand on 24 October 2016.

Bonds amounted to € 2,754,298 thousand (€ 2,678,392 thousand at 31 December 2018) and refer to the following:

- **€ 596,678 thousand** (including the long-term portion of the contract related costs) relating to the 10-year fixed rate bond issued by Acea in July 2014, as part of the Euro Medium Term Notes (EMTN) programme of € 1.5 billion. The bonds, which have a minimum denomination of € 100,000 and expire on 15 July 2024, pay an annual gross coupon of 2.625% and were placed at an issue price of 99.195%. The effective gross yield at maturity is equal to 2.718%, corresponding to a yield of 128 basis points above the 10-year midswap rate. The bonds are governed by English law. The settlement date was 15 July 2014. Interest accrued during the period amounted to € 15,730 thousand;
- **€ 493,803 thousand** (including the long-term portion of the costs attached to the contract) relating to the bond issued by Acea in October 2016 for the EMTN programme for a total amount of €500,000 thousand with a 10-year fixed-rate duration. The bonds, which have a minimum denomination of € 100,000.00 and expire on 24 October 2026, pay an annual gross coupon of 1% and were placed at an issue price of 98.377%. The bonds are governed by English law. The settlement date was 24 October 2016. Interest accrued during the period amounted to € 4,997 thousand;
- **€ 164,164 thousand** relating to the Private Placement which,

net of the Fair Value of the hedge, a negative € 17,853 thousand, amounted to **€ 182,017 thousand**. This fair value is allocated to a specific equity reserve. A suitable exchange reserve includes the exchange rate difference, a negative € 909 thousand, of the hedged instrument calculated on 31 December 2019. The exchange rate at the end of 2019 stood at € 121.77 against € 125.83 as at 31 December 2018. Interest accrued during the period amounted to € 4,156 thousand. This is a private bond (Private Placement) for an amount of 20 billion Japanese Yen and with a maturity of 15 years (2025). The Private Placement was underwritten entirely by a single investor (AFLAC). Coupons are paid on a semi-annual basis every 3 March and 3 September applying a fixed rate in Yen of 2.5%. At the same time, a cross currency transaction was carried out to transform the Yen currency into Euro and the Yen rate applied in a fixed rate in Euro. The cross-currency transaction requires the bank to pay Acea, with a deferred semi-annual maturity, 2.5% out of 20 billion Japanese Yen, while Acea must pay the bank the coupons on a quarterly basis postponed to a fixed rate of 5.025%. The loan agreement and the hedging contract contain an option, respectively, for the investor and the agent bank, connected to the trigger rating: the debt and its derivative can be recalled in their entirety in the event that Acea's rating falls below the level of investment grade or in the event that the debt instrument loses its rating. At the end of the year the conditions for the possible exercise of the option did not occur;

- **€ 299,499 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February with a maturity of 5 years at a variable rate (Euribor 3 months + 0.37%) under the EMTN programme. Interest accrued during the period amounted to € 110 thousand;
- **€ 688,987 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February, with a fixed rate of 1.5% for the duration of 9.5 years under the EMTN programme. Interest accrued during the period amounted to € 10,484 thousand;
- **€ 493,315 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 23 May 2019, with a fixed rate of 1.75% for the duration of 9.5 years under the EMTN programme. Interest accrued during the period amounted to € 5,331 thousand.

The following is a summary including the short-term portion:

€ thousand	Gross debt*	Hedging instrument	Accrued interest**	Total
Bonds:				
Issued in 2010	422,686	0	15,126	437,812
Issued in 2014	595,817	0	7,316	603,133
Private Placement issued in 2014	154,147	17,853	655	182,655
Issued in 2016	492,773	0	943	493,715
Issued in 2018	986,631	0	5,939	992,570
Issued in 2019	492,471	0	5,331	497,802
Total	3,154,525	17,853	35,309	3,207,687

* Including amortisation cost.

** Including rates on hedging instruments.

Medium/long-term borrowings

These amount to € 405,151 thousand and show a total reduction of € 41,028 thousand and represent the payable for the portion of the instalments not yet repaid at 31 December 2019 and expiring beyond twelve months.

The main mortgages, whose values as at 31 December 2019 are shown below including the short-term portions amount to a total of € 736,193 thousand and are described below:

- loan stipulated on 25 August 2008 for an amount of € 200,000 thousand for the investment plan in the water sector (Acea Ato 2) with a duration of 15 years. This loan at 31 December 2019 amounted to € 52,489 thousand. The first tranche of € 150,000 thousand was disbursed in August 2008 and the interest rate is equal to the 6-month Euribor plus a spread of 7.8 basis points. In 2009, a second tranche was disbursed for an amount of € 50,000 thousand, which provides for an interest rate equal to the 6-month Euribor plus a spread of 0.646%, with a maturity of 15 June 2019. The latter was extinguished early in March 2018;
- loan agreement for an initial amount of € 100,000 thousand, entered on 31 March 2008 expiring on 21 December 2021. The rate applied by the bank is a variable rate and the instalments are six-monthly and repayment will be made in half-yearly instalments; the first was paid on 30 June 2010. The residual amount of the loan at 31 December 2019 amounts to € 17,682 thousand. The risk of fluctuations in interest rates associated with the loan was hedged through the subscription of an Interest Rate Swap with the aim of transforming the cost of the underlying loan from variable to fixed. The swap follows the performance of the underlying depreciation plan. Based

on IAS 39, the company has assessed the effectiveness of the hedging instrument according to the hedge accounting method based on the cash flow hedge model. The test result is 99.71% effective, which means that no portion is recorded in the Income Statement that reflects the ineffectiveness of the instrument; in the appropriate equity reserve, the negative fair value of the hedging instrument equal to € 1,020 thousand was recorded;

- loan contracted by the EIB on 23 December 2014 of € 200,000 thousand, aimed at supporting the needs of the multi-year investment plan in the water area. The interest rate applied is equal to the 6-month Euribor with a spread of 0.45% with maturity in June 2030;
- financing contracted with the EIB on 2 May 2017 for € 200,000 thousand as part of the Network Efficiency III Project. The interest rate is variable. The loan repayment plan envisages a period of pre-amortisation up to 15 June 2021 and amortisation in constant semi-annual instalments up to 31 December 2030;
- line of credit of € 150,000 thousand from Intesa San Paolo SpA granted on 22 December 2017 with final expiry on 21 June 2019. The interest rate is fixed and the repayment is in a single solution;
- line of credit of € 100,000 thousand disbursed on 28 December 2017 by UBI Banca SpA with final expiry on 2 January 2019. The interest rate is fixed and the repayment is in a single solution.

The two credit lines of € 150,000 and € 100,000 granted in December 2017 respectively by Intesa Sanpaolo SpA and UBI Banca SpA were repaid during 2019.

The table below provides details of the loans by type of interest rate and by maturity. It must be noted that the table also shows the short-term portion by 31 December 2019 of € 39,998 thousand.

Financing	Total Residual Debt	By 31/12/2020	From 31/12/2020 to 31/12/2024	Beyond 31/12/2024
floating rate	427,467	31,665	192,469	203,333
floating rate Cash Flow Hedge	17,682	8,333	9,349	0
Total	445,149	39,998	201,818	203,333

For information on financial instruments and in particular on fair value at the balance sheet date please refer to the paragraph "Supplementary information on Supplementary information on financial instruments and risk management policies".

IFRS 16 financial payables

This item includes the financial payable deriving from the impact of

the first-time adoption of IFRS 16 (for further details on this subject, see the section "Effects deriving from the introduction of new accounting standards"), the long-term portion of which amounts to € 11,446 thousand. On the other hand, the short-term portion amounts to € 4,635 thousand.

The cash flows broken down by maturity to which Acea is potentially exposed are shown below:

	Within 12 months	Within 24 months	Within 5 years	Residual debt
IFRS 16 liabilities	4,281	8,476	16,065	16,081

25. Other non-current liabilities – € 0 thousand

These are zero at 31 December 2019.

26. Current liabilities – € 881,015 thousand

These amounted overall to € 881,015 thousand and increased overall by € 271,802 thousand.

€ thousand	31/12/2019	31/12/2018	Change
Financial payables	662,536	377,675	284,861
Payables to suppliers	182,641	169,537	13,104
Taxes payable	12,255	17,917	(5,662)
Other current liabilities	23,583	44,085	(20,502)
Total	881,015	609,214	271,802

26.a – Financial payables – € 662,536 thousand

These increased by € 377,657 thousand and are composed as follows:

€ thousand	31/12/2019	31/12/2018	Change
Payables to subsidiaries and associates	85,471	59,393	26,079
Short-term bonds	453,390	26,088	427,301
Payables for bank loans	39,998	290,013	(250,015)
Payables due to Roma Capitale	77,225	420	76,805
Short-term portion of IFRS 16 financial payables	4,635	0	4,635
Payables due to others	1,817	1,761	56
Total	662,536	377,675	284,861

The increase in bonds is attributable for € 423,055 thousand to the reclassification in the short-term position of the bond issued by Acea in March 2010, with a duration of 10 years and maturing on 16 March 2020.

The decrease in payables to banks for loans totalling € 250,015 thousand is due to the repayment of the two loans of Intesa San-

paolo and UBI Banca which respectively expired on 21 June and 2 January 2019.

The changes concerning payables to subsidiaries and associates relate to centralised treasury transactions, which increased by € 23,257 thousand due to the greater financial exposure recorded during the year by Group companies. The following is a breakdown by type of debt due to investee companies:

€ thousand	31/12/2019	31/12/2018	Change
Payables for cash pooling relationships	82,574	59,317	23,257
Other financial debts	2,897	76	2,821
Total	85,471	59,393	26,079

Financial payables to Roma Capitale increased by € 76,805 thousand due to the recognition of the payable for Acea share dividends accrued in 2018 (€ 77,114 thousand) partly offset by the reduction in the advance payment to Roma Capitale for the LED Plan due to the progress of the installation plan.

The short-term portion of the IFRS 16 financial payable of € 4,635

thousand is recorded under this item (for further details, see the section “Effects deriving from the introduction of new accounting standards”).

26.b – Trade payables – € 182,641 thousand

Results are as follows.

€ thousand	31/12/2019	31/12/2018	Change
Payables to third-party suppliers	107,672	95,381	12,291
Payables from subsidiaries and associates	74,969	74,156	813
Total	182,641	169,537	13,104

Payables to third-party suppliers show an increase of € 12,291 thousand and the balance is shown below:

€ thousand	31/12/2019	31/12/2018	Change
Payables due to invoices received	60,504	51,214	9,290
Payables due to invoices to be received	47,168	44,167	3,001
Total	107,672	95,381	12,291

With regard to payables to suppliers for invoices received for € 60,504 thousand, it must be noted that the expired component amounts to € 18,542 thousand, the remaining amount is due within the next twelve months.

With regard to relations with **subsidiaries and associates**, there was an increase of € 813 thousand, which is analysed in the following table:

€ thousand	31/12/2019	31/12/2018	Change
Acea Ato 2	752	907	(155)
Acea Ato 5	102	98	4
Acea Energia	6,622	4,979	1,643
Acea Produzione	20	296	(277)
areti	65,823	64,416	1,407
Ingegnerie Toscane	145	2,300	(2,155)
Citelum Acea Napoli	141	141	0
Aquaser	48	0	48
Acea8cento	206	56	150
Acea Elaboratori	42	10	32
Publiacqua	58	58	0
Acea Ambiente	76	0	76
Gori	130	0	130
Crea Gestione	0	176	(176)
Ecogena	51	47	4
Acque	47	47	0
Umbra Acque	102	0	102
ALL	0	36	(36)
Other	604	589	15
TOTAL	74,969	74,156	813

26.c – Tax payables – € 12,255 thousand

These are reduced by € 5,662 thousand and are composed as shown in the following table.

€ thousand	31/12/2019	31/12/2018	Change
IRES and IRAP payables	814	13,172	(12,358)
Total payables to tax authorities	814	13,172	(12,358)
Tax consolidation payables to subsidiaries	11,441	4,745	6,696
Total tax payables	12,255	17,917	(5,662)

26.d – Other current liabilities – € 23,583 thousand

These are composed as follows:

€ thousand	31/12/2019	31/12/2018	Change
Payables to social security institutions	3,606	3,558	48
Other payables	19,977	40,527	(20,550)
<i>Payables due to personnel</i>	11,667	10,915	752
<i>stock of receipts from customers to be redeemed / returned</i>	37	5,379	(5,341)
<i>Payables due to Municipalities</i>	0	901	(901)
<i>Insurance payables</i>	542	563	(20)
<i>Payable in instalments to Equitalia</i>	0	16	(16)
<i>Accruals and deferrals</i>	232	0	232
<i>Deferred VAT</i>	4,927	4,695	232
<i>Staff withholdings</i>	2,107	2,127	(21)
<i>Other tax payables</i>	1	1	(0)
<i>Other payables</i>	463	15,928	(15,465)
Total	23,583	44,085	(20,502)

The change is related to the payment of the pecuniary administrative fine amounting to € 16,200 thousand imposed by the Antitrust Authority; for further details see what is specified in the paragraph "Legal disputes".

For greater clarity, it must be noted that payables with a due maturity of more than five years are not recorded in the financial statements, other than those already indicated with respect to the item "Loans".

INFORMATION ON RELATED PARTIES

ACEA AND ROMA CAPITALE

The controlling entity holds an absolute majority with 51% of Acea's shares.

There are commercial relations between Acea and Roma Capitale, as the company provides services to the Municipality with regard to maintenance and upgrading of Public Lighting systems.

With regard to the Public Lighting service, we inform you that it is provided exclusively in the Rome area. As part of the thirty-year free grant issued by the Municipality of Rome in 1998, the economic terms of the services subject to the concession are currently governed by a service contract between the parties in force since May 2005 and until the concession expires (31 December 2027), pursuant to the supplementary agreement signed between Acea and Roma Capitale on 15 March 2011 modified in June 2016 with a private deed aimed at regulating commitments and obligations deriving from the implementation of the LED Plan.

The additions of the supplementary agreement of 2011 concern the following aspects:

- alignment of the duration of the service contract to the expiry of the concession (2027), given the mere accession function of the contract to the agreement;
- periodic updating of the fee components related to electricity consumption and maintenance;
- annual increase in the lump-sum payment for the new lighting points installed.

Furthermore, the investments required for the service may be 1) applied for and funded by the Municipality or 2) financed by Acea. In the former case, such works will be paid based on a price list agreed by the parties (and subject to review every two years) and will result in a percentage decrease in the ordinary fee. In the latter case, the Municipality is not bound to pay a surcharge; however, Acea will be awarded all or part of the savings expected in both energy and economic terms according to pre-established methods.

On the due or early termination date Acea is entitled to an indemnity corresponding to the residual book value of the assets that will be paid by the Municipality or the incoming operator upon express provision of this obligation in the call for tenders for the selection of the new operator.

Finally, the contract establishes a list of events that represent a cause for the early cancellation of the concession and/or the termination of the contract by the will of the parties. Among these events, the one relating to supervening needs related to the public interest appears relevant, expressly included as foreseen by article 23 bis of Italian Legislative Decree no. 112/2008, repealed following the referendum of 12 and 13 June 2011, which gave Acea the right to an indemnity commensurate with the product discounted by a value between a defined percentage of the annual contractual amount and the number of years left until the expiry of the concession.

The supplementary agreement, exceeding the materiality thresholds defined by the Company in relation to Transactions with Related Parties, was submitted to the analysis of the Board of

Directors and obtained approval at the meeting on 1 February 2011, after obtaining the favourable opinion by the Committee for Transactions with Related Parties.

Reciprocal claims and liabilities – with reference to payment methods and terms – are governed by individual contracts:

- for the Public Lighting service contract the payment is expected within sixty days from the submission of the invoice and, in the event of delayed payment, the legal rate is applied for the first sixty days and then the default rate as established from year to year by a special decree of the Minister of Public Works in agreement with that of the Minister of Economy and Finance;
- for all other service contracts the payment deadline for Roma Capitale with reference to service contracts is sixty days from receipt of the invoice and in the event of late payment, the parties have agreed to apply the official discount rate in force over time.

The private agreement signed in June 2016 between Acea and Roma Capitale regulated commitments and obligations deriving from the implementation of the LED Plan modifying art. 2.1 of the Supplementary Agreement signed in 2011.

More specifically, the agreement provides for the installation of 186,879 fittings (which became 182,556 at the request of Roma Capitale), in the number of 10,000 per month starting thirty days after the signing of the agreement; the price was set at € 48 million for the entire LED Plan. 10% of the price will be paid in advance and the remaining part on the basis of specific bimonthly progress certificates, to be paid by Roma Capitale within thirty days following the closing of the progress certificate for 80%, and within fifteen days after verification of the same progress certificate for the remaining 15%. The agreement also provides for incentive/penalty mechanisms based on higher/lower than planned installations every two months and for a reduction of the fee paid by Roma Capitale to the extent of 50% of the economic value of Energy Efficiency bonds due to Acea for the LED Project.

As a result of the implementation of the LED Plan, the parties partially modified the price list and the composition of the fee for the management of the service.

New constructions and investments contribute to the increase in the lump-sum payment due to the annual rate calculated according to the mechanism of tax depreciation envisaged for the plants underlying the specific intervention and to the percentage reduction of the ordinary rent due from Roma Capitale whose amount is defined in the technical-economic project document. A variable interest rate is envisaged to remunerate the invested capital.

With regards the extent of the relationship between Acea and Roma Capitale, reference must be made to what has been explained and commented on receivables and payables to the parent company in note no. 19.c of this document.

From the point of view of economic relations, instead, the costs and revenues at 31 December 2019 are summarised below with reference to the most significant transactions.

€ thousand	Revenues		Costs	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Public Lighting service contract	34,163	39,283	0	78
Revenue from real. plants on request	6,468	3,161	0	0
Total	34,163	39,283	0	78

ACEA AND THE ROMA CAPITALE GROUP

Even with companies, special companies or institutions controlled

by Roma Capitale, Acea has commercial relations. The following table shows information on entries with the companies of the Roma Capitale Group.

Roma Capitale Group	Payables	Costs	Receivables	Revenues
€ thousand	31/12/2019	31/12/2019	31/12/2019	31/12/2019
AMA SPA	1,186	557	28	0
ATAC SPA	25	3	89	0
ROMA METROPOLITANE SRL	0	0	56	0
FONDAZIONE CINEMA PER ROMA	100	100	0	0
ROMA MULTISERVIZI SPA	3	0	0	0
BIOPARCO	1	0	0	0
ZETEMA PROGETTO CULTURALE SRL	28	28	0	0
LE ASSICURAZIONI DI ROMA	0	41	0	0
PALA EXPO	0	25	0	0
TOTAL	1,343	754	173	0

ACEA AND ITS SUBSIDIARIES

Financial reports

Acea SpA, in its function as an industrial holding company, defines the strategic objectives at the Group and subsidiary level and coordinates its activities.

As part of the centralised management of financial services, the parent company Acea has long since adopted a Group inter-company treasury system, including an inter-company finance relationship, making it available to many Group companies with which a special multi-year inter-company finance contract was signed.

The intercompany finance contracts expired on 31 December 2019. On the basis of this contract, Acea makes available a medium-term revolving loan, so-called "Intercompany Finance Line", up to a pre-determined credit limit for financing the financial needs for 1) working capital requirements and 2) the execution of investments.

In addition, Acea makes credit lines available to its own companies for signature, for an amount equal to the Plafond for bank guarantees or through the direct issuing of corporate guarantees for an amount equal to the Plafond for Corporate Guarantees.

The operation of this contract provides that in a permanent and daily manner each company, holder of specific peripheral bank current accounts, daily credit or debit the Parent Bank's current account to zero the balance on its current accounts.

In the case of daily intercompany balance due by currency, companies recognise the interest expense calculated, for each year, on the basis of a market interest rate, defined as the weighted average of the rates applied on the capital market for the so-called issues hybrid or similar in the utilities sector (revisable annually, possibly increased by an additional margin linked, substantially, to the level of exposure of the beneficiary company with respect to the total limits granted to companies with cash pooling). For 2019, the interest rate applied is between a minimum of 4.62% and a maximum of 5.78% and did not change in 2018.

In the case of a daily intercompany credit balance by currency, Acea recognises calculated interest rates for each quarter by applying the interest rate resulting from the arithmetic average of the "3 month EURIBOR" rates (source Bloomberg) in the previous quarter.

Contractual terms applied are, with the same credit standing and type of financial instrument, in line with those resulting from the reference market, also supported by the evidence of a benchmark developed by a leading consulting firm.

As of 1 January 2020 note that the treasury contracts have been renewed and revised with the following contractual conditions:

- the duration is 30 years or until the expiry of concessions for companies with regulated business (Acea Ato 2 and areti);
- revision of the total rate calculation method for the use of the Intercompany Finance Line;
- revision of the method for calculating the rates applied on bank and corporate guarantees;
- regular annual update of economic conditions based on the previous year's financial statements.

Reports of a commercial nature

Acea also provides subsidiaries and associated companies with administrative, financial, legal, logistics, management and technical services in order to optimise the resources available within the Company and to optimally use existing know-how in a logic of affordability. These services are governed by specific service contracts.

With regard to service contracts, starting from 1 January 2017 and with a three-year duration. These prices are aligned with market fees as resulting from the benchmarking activity carried out by a leading company in the sector specifically appointed. These contracts are compliant for regulatory purposes and of the Organisation, management and control model and envisage SLAs (Service Level Agreements) with a view to improving the level of service offered, to relate to relevant KPIs (Key Performance Indicators).

As part of the Template project, Acea and the companies in the area approved a contract that allows the implementation of the main technological development initiatives (cross-cutting and business) through the communion institute. The aforementioned contract contains rules of an economic - financial nature and of participation in the communion.

Acea also provides operating services, application management and maintenance related to accessing the Template project regulated by a specific contract.

The contractual terms applied are, for the same type of service rendered, in line with those resulting from the market.

ACEA AND THE MAIN COMPANIES OF THE CALTAGIRONE GROUP

As of the end of the 2019 financial year, there are no financial transactions with the companies of the Caltagirone Group and Acea SpA.

ACEA AND THE MAIN COMPANIES OF THE SUEZ ITALIA GROUP

As of the end of the 2019 financial year, there are no financial

transactions with Suez Italla SpA and Acea SpA. The table below shows the impact of transactions with related parties on the statement of financial position, the income statement and the cash flow statement.

IMPACT ON THE STATEMENT OF FINANCIAL POSITION

Balance Sheet	31/12/2019	Related Parties	% Impact	31/12/2018	Related Parties	% Impact	Change
Financial assets	226,671	226,545	99.9%	227,385	227,260	99.9%	(715)
Trade receivables	747	0	0.0%	731	541	74.0%	15
Intragroup trade receivables	98,372	98,372	100.0%	88,213	88,213	100.0%	10,159
Other current assets	32,435	1,986	6.1%	31,901	1,931	6.1%	535
Intragroup current financial assets	2,539,759	2,539,759	100.0%	2,074,601	2,074,601	100.0%	465,158
Current tax assets	10,766	8,142	75.6%	13,397	12,185	91.0%	(2,631)
Financial payables	662,536	164,465	24.8%	377,675	61,582	16.3%	284,861
Trade payables	182,641	1,404	0.8%	169,537	75,522	44.5%	13,104
Tax payables	12,255	11,441	93.4%	17,917	4,745	26.5%	(5,662)
Other current liabilities	23,583	28	0.1%	44,085	2	0.0%	(20,502)

IMPACT ON THE ECONOMIC RESULTS

Income Statement	31/12/2019	Related Parties	% Impact	31/12/2018	Related Parties	% Impact	Change
Revenue from sales and services	152,318	152,207	99.9%	156,161	156,017	99.9%	(3,842)
Other revenue and proceeds	30,916	9,319	30.1%	15,663	7,741	49.4%	15,253
Costs of materials and overheads	133,179	59,810	44.9%	154,364	51,889	33.6%	(21,185)
Financial income	145,919	139,097	95.3%	130,273	128,985	99.0%	15,646
Financial expenses	72,312	58	0.1%	70,827	161	0.2%	1,486
Income/(Costs) from equity investments	181,634	181,634	100.0%	162,074	177,966	109.8%	19,560

IMPACT ON THE CASH FLOW STATEMENT

Cash flow statement	31/12/2019	Related Parties	% Impact	31/12/2018	Related Parties	% Impact	Change
Cash flow from operating activities	(53,920)	(79,667)	147.7%	(70,846)	(20,870)	29.5%	16,925
Cash flow of asset investment/ disinvestment	(324,625)	(290,541)	89.5%	234,829	(8,136)	-3.5%	(559,454)
Cash flow from financing activities	88,138	(50,302)	-57.1%	287,865	(103,584)	-36.0%	(199,727)

LIST OF TRANSACTIONS WITH RELATED PARTIES

During 2019, there were no significant transactions with related parties.

UPDATE ON MAJOR DISPUTES AND LITIGATION

TAX ISSUES

On 17 April 2018 the Regional Directorate of Lazio – Large Taxpayers Office initiated a general tax audit of the Company. The audit was concluded on 31 October 2018 with the drafting of the PVC (Audit Report) that alleged substantial VAT violations by the Company for the 2014 tax period.

It is also noted that as part of the controls carried out, on 12 October 2018 the Inland Revenue sent Company questionnaire no. Q00044/2018 relating to the determination of non-deductible costs, with the aim of extending the audit to the 2013 tax period. The Company's response was sent to the relevant bodies on 7 December 2018.

Finally, it is acknowledged that following a joint consultation report (protocol no. 115820), with an assessment with acceptance on 18 December 2018 the Company accepted pursuant to and for the purposes of art. 6, para. 1 of Italian Legislative Decree no. 218/97 the proposal made by the Revenue Agency, which, pursuant to art. 54, paragraph 4, of Italian Presidential Decree no. 633/1972, defined without prejudice to further possible audits under the terms established by art. 57 of the same decree, VAT due for € 433,509 for undue deduction of VAT in violation of art. 19, paragraphs 2 and 4 of Italian Presidential Decree no. 633/1972. Penalties were calculated on the taxes due for a total amount of € 166,315.88 along with interest equal to € 73,871.59. Subsequently, on 19 December 2018 the Company fully paid the sums due for the 2013 tax period. Finally, it is acknowledged that following a joint consultation report, with an assessment with acceptance on 8 May 2019 the Company accepted pursuant to and for the purposes of art. 6, para. 1 of Italian Legislative Decree no. 218/97 the proposal made by the Revenue Agency, which, pursuant to art. 54, paragraph 4, of Italian Presidential Decree no. 633/1972, defined without prejudice to further possible audits under the terms established by art. 57 of the same decree, VAT due for € 485 thousand for undue deduction of VAT in violation of art. 19, paragraphs 2 and 4 of Italian Presidential Decree no. 633/1972. Penalties were calculated on the taxes due for a total amount of € 182 thousand along with interest equal to € 71 thousand. Subsequently, on 17 May 2019 the Company fully paid the sums due for the 2014 tax period.

OTHER ISSUES

Acea SpA – SMECO

With a writ served in the autumn of 2011, Acea was summoned to court to answer for alleged damages that its alleged non-compliance with unproven and non-existent obligations that are assumed to have been part of the shareholders' agreement regarding the subsidiary A.S.A. – Acea Servizi Acqua, by its minority shareholders and their respective shareholders. The petition is for more than € 10 million.

With sentence no. 17154/15 of 17 August 2015, the Court rejected the application in its entirety and sentenced the parties jointly and severally to the reimbursement of Acea for legal expenses. On 1 October 2015, SMECO lodged an appeal to the 2nd Section of the Court of Appeal of Rome. After a number of postponements, the hearing to clarify the conclusions was set for 3 November 2020.

Acea SpA – Milano '90

This issue concerns the failure to pay sums due for the balance of the sale price of the area in the Municipality of Rome with access

from via Laurentina no. 555, formalised with a deed dated 28 February 2007 and with a subsequent supplementary deed of 5 November 2008. With the supplementary deed, the parties agreed to change the fee from € 18 to € 23 million, while eliminating the earn out, setting 31 March 2009 as the payment deadline.

Given the purchaser's failure to act, the procedure to collect the amounts due was initiated by preparing a notice pay addressed to Milano '90 and through application for an injunction order which, on 28 June 2012, was granted in a temporarily enforceable form. Therefore, in November 2012, Acea served a garnishment order to the company Milano '90 for the forced recovery of the amounts claimed.

Milano '90 opposed the aforementioned injunction – also requesting the condemnation of Acea for the restitution of sums paid as a price and compensation for damages – obtaining the suspension of its provisional execution. Consequently, the enforcement procedure was in turn suspended.

By judgement no. 3258, published on 13 February 2018, the Court of Rome rejected the opposition and confirmed the court order in full, sentencing Milano '90 to pay for the costs of the dispute.

Judgement of Appeal

On 26 April 2018, Milano '90 filed an appeal against the above judgement. As a result of the oral hearing, with an order dated 25 October 2018 the Court of Appeal rejected the request for suspension, postponing the specification of the conclusions to 16 July 2020.

Executive procedure

Following the favourable first instance ruling, on 27 March 2018 Acea filed the appeal for the resumption of the enforcement procedure against Milano '90 and the garnishment order and the hearing was postponed to 9 October 2018 for the appearance of the parties and the prosecution. As a result of this hearing, the Judge ordered a postponement for the possible assignment of the foreclosed sums pending the decision of the Court of Appeal on the injunction of the contested judgement. The hearing was last adjourned to 27 November 2019 and the judge put in place conditions. With order dated 11 February 2020 the enforcement judge cancelled the previous conditions and ordered the allocation of € 6,445,687.75 plus legal costs and interest in favour of Acea.

Acea SpA – Trifoglio Srl

The complex dispute consists of a case filed as a plaintiff and also a case appearing as a defendant, joined in 2015 before the Judge with whom the case filed as a plaintiff was pending.

Case filed as a plaintiff: this issue concerns the breach by Trifoglio of its obligation to pay the balance of the amount due (€ 10.3 million), pursuant to the sale contract regarding the so-called Autoparco property, which should have been paid on 22 December 2011.

In consideration of Trifoglio's breach, a notice was served aimed at signing a deed to voluntarily terminate the sale agreement of 22 December 2010, and then to file a claim before the Court of Rome, pursuant to art. 702-bis of the Italian Code of Civil Procedure. In the meantime, ATAC Patrimonio filed a claim for the termination of the sale agreement of 22 December 2010 for the portion for which it is responsible.

Cases as a defendant: Trifoglio has notified Acea and ATAC Patrimonio a writ of summons aimed at assessing the invalidity of the deed of purchase and sale and recognition of compensa-

tion for damages in the amount of approximately € 20 million. By judgement no. 11436/2017 of 6 June 2017, the Court of Rome declared the nullity of the contract of purchase and sale, substantively upholding the petition of Acea aimed at having the contract wound up with Trifoglio and recovering ownership of the area, arranging for the return to Trifoglio of the deposit-price received (€ 4 million); it also rejected the request for compensation for damages made by Trifoglio and excluded any liability of Acea with regards to the truthfulness of the contractual guarantees offered to Trifoglio. On 8 August 2017 Trifoglio filed an appeal, with a hearing for conclusions set for 2 April 2020.

Acea SpA – Former COS rulings

The COS dispute concerns the ascertainment of the illegality of the contract between ALMAVIVA Contact (formerly COS) and Acea and the consequent right of its workers to be recognised as having a subordinate employment relationship with Acea.

It should be noted that the majority of the cases in which Acea was unsuccessful were settled, and that of the six claimants only two were brought before the Court of Cassation by Acea to assess the existence of a claim (i.e. the assessment of the right to establish a relationship), both heard on 4 April 2019 by the Council. These judgements were settled by dismissal orders – made on 2 and 10 July 2019 – of Acea's application. The establishment of the employment contract between Acea and the opposing parties as from 2004 is therefore confirmed.

The workers – who have so far claimed the differences in pay for lack of performance – have therefore started to work concretely at Acea800 as of 3 February 2020 following a posting to this company, despite having established the relationship with Acea, in execution of the court order.

Based on the judgements concerning the *an debeat*, the six workers who won their cases (i.e. with whom a subordinate employment relationship with Acea was established) have over time introduced judgements quantifying their claims, requesting the payment of the wages due as a result of the established relationship and regarding different periods of accrual of the alleged claims, which have led to disagreements that are pending at various levels of jurisdiction. In detail, with regard to the number of cases currently pending at the Court of Cassation, a first judgement was settled with a sentence in favour of Acea on 31 October 2018, against which the counterparties appealed for revocation by means of a document served on 30 April 2019. One other quantification judgement is still pending with the Court of Justice.

Finally, another quantification of the pay differences accrued between 2010 and 2014 proposed by the workers themselves is pending before the Court of Appeal of Rome, and during the last hearing, held on 25 June 2018, the Court of Appeal deemed it appropriate to suspend it pending the rulings of the Court of Cassation on the *an debeat* of the claim (see above), which took place in July 2019 and as a result of which the case has been resumed and is currently pending with a hearing in March 2020.

Acea SpA and areti SpA – MP 31 Srl (formerly Armosia MP Srl)

This is a challenge to the injunction issued by the Court of Rome – General Docket 58515/14 against areti for the amount of € 226,621.34, requested by Armosia MP by way of lease payments for the months of April-May-June of 2014 in relation to the property in Rome – Via Marco Polo 31. The injunction was declared provisionally enforceable by order of 8 July 2015.

In the hearing on 17 February 2016, the Judge adjoined this case with the other pending before the Court of Rome, taken by Acea and areti (transferee of the lease contract) in order to obtain the termi-

nation of the lease contract. In this latter case, MP 31 has also filed an unconventional remand for compensation for the damages incurred in consideration of the degrading condition of the building when it was released by areti. With a sentence dated 27 November 2017 the Court upheld the application of MP 31 against areti, condemning it to the payment of the previous rent in the amount of € 2,759,818.76 plus interest from the individual deadlines, as well as the payment of the rent up to contract expiry (29 December 2022). As a result, there are no further charges to the company.

Acea filed an appeal, served on 2 January 2018. The appeal hearing has been set for 16 April 2020.

Acea SpA and Acea Ato 2 SpA – CO.LA.RI.

With a writ of summons served on 23 June 2017, Co.La.Ri. Consortium and E. Giovi Srl – manager of the landfill at Malagrotta (RM) and executor respectively – summoned Acea and Acea Ato 2 in order to obtain from the defendants the payment of the portion of the tariff for accessing the landfill to be allocated to hedge the thirty-year management costs for same – established by Italian Legislative Decree no. 36/2003 – assertively due for the conferment of waste during the period of contractual validity 1985-2009.

The main request stands at over € 36 million for the entire period of contract validity. Subordinately, in the event that the law disposing the tariff is considered by the judge to be applicable retroactively, the plaintiffs request the recognition of the right to receivables of approximately € 8 million for the period March 2003-2009, and the ascertainment, by expert appraisal, of the receivables for the previous period 1985-2003.

The first hearing, initially set for 23 February 2018, was postponed to 8 October 2018 to add the dispute against the Optimal Territorial Area Authority 2 Central Lazio – Rome. As a result of this hearing, the judge granted the terms under art. 183 of the Italian Code of Civil Procedure and scheduled the subsequent preliminary hearing for 28 March 2019, then postponed until 12 November 2019. On that date the judge set the hearing for conclusions on 27 October 2020.

Proceeding AGCM A/513

On 8 January 2019, the Antitrust Authority notified Acea SpA, Acea Energia SpA and areti SpA of the final order for Proceeding A/513.

With this order, the Authority ruled that the aforementioned Group companies had committed an abuse of a dominant position – qualified as very serious and of duration quantified in 3 years and 9 months – consisting in the adoption of a broad exclusionary strategy realised through the illegitimate use of a series of prerogatives possessed solely by virtue of its position as an integrated operator in distribution, in order to compete with its competitors in the acquisition of electricity sales contracts in free market conditions.

In view of the gravity and duration of the infringement, the Authority ordered Acea SpA, Acea Energia SpA and areti SpA to pay an overall pecuniary administrative fine of € 16,199,879.09.

Fully convinced of the illegitimacy of the measure imposed, two administrative appeals were filed before the Lazio Regional Administrative Court, one brought by Acea Energia and the other by Acea SpA. The hearing on the merits of both judgements was held on 2 October 2019, and on 17 October 2019 the appeals were upheld with separate sentences and the fine was therefore annulled.

With appeals served on 17 January 2020, the AGCM filed an appeal before the Council of State and is awaiting the setting of a hearing.

The Directors maintain that the settlement of ongoing disputes and other potential disputes should not create any additional charges for Acea, with respect to the amounts set aside, which represent the best estimate possible on the basis of elements available as of today.

ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

CLASSES OF FINANCIAL INSTRUMENTS

The following table shows the breakdown of financial assets and liabilities required by IFRS 7 based on the categories defined by IAS 39.

€ thousand	FVTPL	FVTOCI	Amortised cost	Balance sheet value	Explanatory Notes
Non-current fixed assets	2,352			2,352	
Other equity investments	2,352			2,352	16
Financial assets			207,998	207,998	18
Current assets	0	0	2,785,661	2,785,661	
Trade receivables			99,119	99,119	20
Current financial assets			2,686,542	2,686,542	20
Non-current liabilities					
Bonds		182,017	2,572,281	2,754,298	24
Payables to banks		9,349	395,802	405,151	24
Current liabilities					
Bonds (current portion)			453,390	453,390	26
Payables to banks			39,998	39,998	26
Financial Payables			169,148	169,148	26
Trade payables			182,669	182,669	26

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of securities not listed on an active market is determined using the valuation models and techniques prevailing on the market or using the price provided by several independent counterparties.

The fair value of medium / long-term financial receivables and payables is calculated on the basis of the risk-less and risk-less adjusted rates. It must be noted that for trade receivables and payables with contractual expiry within the financial year, the fair value has not been calculated as their book value approximates the same. In addition, fair value is not calculated when the fair value of financial assets and liabilities cannot be objectively determined.

TYPES OF FINANCIAL RISKS AND RELATED HEDGING ACTIVITIES

Foreign exchange risk

Acea is not particularly exposed to this type of risk which is concentrated on the conversion of the financial statements of foreign subsidiaries.

As regards the 20 billion Yen Private Placement, the exchange rate risk is hedged through a cross currency swap described in the section on interest rate risk.

Liquidity risk

As part of the Group's policy, the objective of managing liquidity risk for Acea is to have a financial structure that, in line with the

business objectives and with the limits defined by the Board of Directors, ensures a level of liquidity appropriate to the financial needs, maintaining a correct balance between duration and composition of the debt.

The liquidity risk management process, which uses financial planning tools for outflows and receipts suitable to manage treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract. At 31 December 2019 the Parent Company has uncommitted credit lines of € 628 million. No guarantees were granted in obtaining these lines.

The EMTN Programme approved in 2014 and already adjusted during 2018 was further expanded in July 2019, bringing it to a total amount of € 4 billion. Following the issue of the bond in May for € 0.5 billion, Acea may place additional bond issues up to a total residual amount of € 1.4 billion.

Interest rate risk

The Acea Group's approach to managing interest rate risk, which takes the structure of assets and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging funding costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

The Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.

In particular, for static management (to be opposed to the dynamic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term.

Acea has, up to now, opted to minimise interest rate risk by choosing a mixed range of fixed and floating rate funding instruments.

As it is known, fixed rate funding protects a borrower from cash flow risk in that it stabilises the financial outflows in the income statement, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.

An analysis of the consolidated debt position shows that the risk Acea is exposed to is mainly in the form of fair value risk, being composed of hedged fixed rate borrowings (80.7%) as at 31 December 2019, and to a lesser extent to the risk of fluctuations in future cash flows.

Acea is consistent with its decisions regarding interest rate risk management that essentially aims to both control and manage this risk and optimise borrowing costs, taking account of Stakeholders' interests and the nature of the Group's activities, and based on the prudence principle and best market practices. The main objectives of these guidelines are as follows:

- identifying, from time to time, the optimal combination of fixed and variable rates;
- to pursue a potential optimisation of borrowing costs within the risk limits established by governance bodies and in accordance with the specific nature of the business;

- to manage derivatives transactions solely for hedging purposes, should Acea decide to use them, in respect of the decisions of the Board of Directors and, therefore, the approved strategies and taking into account (in advance) the impact on the income statement and Statement of Financial Position of said transactions, giving preference to instruments that qualify for hedge accounting (typically cash flow hedges and, under given conditions, fair value hedges).

Please note that Acea has:

- returned the € 100 million loan obtained on 27 December 2007 to a fixed rate with a swap. The IRS plain vanilla swap was signed on 24 April 2008 with effect from 31 March 2008 (date of the draw of the underlying) and expires on 21 December 2021;
- a cross currency transaction to transform to Euro – through a plain vanilla DCS swap – the currency of the private placement (Yen) and the yen rate applied to a fixed Euro rate through a plain vanilla IRS swap.

All the derivative instruments taken out by Acea and listed above are non-speculative and the fair values of the same are respectively:

- negative for € 1.0 million (negative for € 2.1 million at 31 December 2018);
- negative for € 17.9 million (negative for € 21.8 million at 31 December 2018).

The fair value of medium/long-term debt is calculated on the basis of the risk-free and the risk-adjusted interest rate curves.

€ thousand	Amortised cost (A)	FV RISK LESS (B)	Delta (A) - (B)	FV RISK ADJUSTED (C)	Delta (A) - (C)
Bonds	3,207,687	3,504,722	(297,035)	3,301,189	(93,502)
floating rate	427,467	436,272	(8,805)	434,768	(7,300)
floating rate to fixed rate	17,682	17,840	(158)	17,687	(5)
Total	3,652,837	3,958,834	(305,998)	3,753,644	(100,807)

This analysis was also carried out with the "risk-adjusted" curve, i.e. a curve adjusted for the level of risk and the business sector of Acea. A curve populated with fixed rate bonds denominated in EUR, issued by domestic companies in the public utilities sector with a composite rating ranging from BBB+ and BBB- was used. A sensitivity analysis has been carried out on medium/long-term financial liabilities using stress testing, thus applying a constant

spread over the term structure of the risk-free interest rate curve. This makes it possible to evaluate the impact on fair value and on future Cash Flows for both the individual instruments in the portfolio and the overall portfolio.

The following table shows the overall fair value changes of the debt portfolio based on parallel shifts (positive and negative) between -1.5% and +1.5%.

Constant spread applied	Changes in Present Value (€ million)
(1.5)%	(293.6)
(1.0)%	(187.8)
(0.5)%	(85.9)
(0.3)%	(36.4)
n.s.	0.0
0.3%	59.8
0.5%	106.6
1.0%	197.5
1.5%	285.2

With regard to the type of hedging of which the fair value is determined and with reference to the hierarchies required by the IASB, it should be noted that, since these are composite instruments, the

level is type 2 and that during the period there were no reclassifications from or to other levels of fair value as defined by IFRS 13.

COMMITMENTS AND CONTINGENCIES

These amounted to € 815,204 thousand and increased by € 53,487 thousand compared to 31 December 2018 (€ 761,487 thousand).

ENDORSEMENTS AND SURETIES ISSUED AND RECEIVED

These have a negative net balance of € 37,332 thousand, as the endorsements and sureties issued amounted to € 13,638 thousand while those received amounted to € 50,969 thousand.

These recorded an increase of € 9,147 thousand compared to the end of the previous year. The change is mainly attributable to the issue of the bank guarantee issued by BNL to ATERSIR for the tender for the Integrated Water Service in the province of Rimini for € 8,800 thousand, and by BBVA in to SEDAPAL for the tender for the maintenance of Lima Nord for € 849 thousand, offset by the release of the guarantees issued by MPS to the Municipalities of Amatrice, Caltagirone and Taranto relating to the former Acea Luce for € 888 thousand.

LETTERS OF PATRONAGE ISSUED AND RECEIVED

The balance is positive for € 603,929 thousand, consisting of let-

ters of patronage issued for € 603,929 thousand and letters of patronage received for € 203 thousand.

During the year they underwent an overall increase of € 44,340 thousand. The main changes concerned:

- the issue of a guarantee of € 38,800 thousand on behalf of Adf to the pool of banks the company has a medium/long-term loan with;
- the issue of three guarantees for a total of € 17,412 thousand to Belenergia and Casamassima on behalf of Acea Sun Capital for the purchase of the Special Purpose Vehicle;
- the increase in guarantees benefiting various companies on behalf of Acea Energia, including ASM Terni, ERG POWER Generation SpA and SNAM Rete GAS, offset by some releases benefiting IREN Mercato, for example, for a total of € 7,409 thousand;
- the decrease in the guarantee benefiting CDDPP (- € 20,998 thousand) offset by the increase in the guarantee to Terna (+ € 1,435 thousand) for transport services.

THIRD-PARTY ASSETS UNDER CONCESSION

These amount to € 86,077 thousand and have not changed since 31 December 2018 and refer to assets related to Public Lighting.

RESOLUTIONS REGARDING THE RESULT FOR THE YEAR AND THE DISTRIBUTION TO SHAREHOLDERS

Dear Shareholders,

In inviting you to approve the financial statements we are submitting to you, we propose to allocate the profit for the year ended 31 December 2019, equal to € 208,488,011.79, as follows:

- € 10,424,400.59, equal to 5% of profit, to the legal reserve,
- € 165,787,367.46 to shareholders, corresponding to a unit dividend of € 0.78,
- € 32,276,243.74 for retained earnings.

The total dividend (coupon no. 21 of € 165,787,367.46, equal to € 0.78 per share, will be paid starting from 24 June 2020 with coupon detachment on 22 June and record date 23 June.

On the date of approval of the financial statements, treasury shares amounted to no. 416,993.

Acea SpA

The Board of Directors

ANNEXES TO THE EXPLANATORY NOTES OF WHICH THEY FORM AN INTEGRAL PART

ANNEX 1: NET FINANCIAL POSITION

**ANNEX 2: CHANGES OF INVESTMENTS AT 31
DECEMBER 2019**

**ANNEX 3: SIGNIFICANT NON-RECURRING
TRANSACTIONS PURSUANT TO CONSOB
RESOLUTION NO. 15519 OF 27 JULY 2006**

**ANNEX 4: POSITIONS OR TRANSACTIONS
DERIVING FROM UNUSUAL AND/OR ATYPICAL
OPERATIONS**

ANNEX 5: SEGMENT INFORMATION (IFRS 8)

ANNEX 1 – NET FINANCIAL POSITION AT 31 DECEMBER 2019

€ thousand	31/12/2019	Related parties	31/12/2018	Related parties	Change
Non-current financial assets	126	0	126	0	0
Non-current intragroup financial assets	207,872	207,872	204,125	204,125	3,747
Non-current borrowings and financial liabilities	(3,152,021)	0	(3,100,723)	0	(51,299)
Financial assets (liabilities) from the valuation of derivative instruments	(18,873)	0	(23,848)	0	4,975
Medium-long term financial position	(2,962,897)	207,872	(2,920,320)	204,125	(42,577)
Cash and cash equivalents and securities	688,145	0	978,552	0	(290,407)
Current financial assets/(liabilities)	(353,057)	(1,769)	(312,071)	(1,769)	(40,986)
Current intragroup financial assets (liabilities)	2,377,063	2,377,063	2,014,789	2,014,789	362,274
Short-term financial position	2,712,150	2,375,294	2,681,269	2,013,020	30,881
Total net financial position	(250,747)	2,583,166	(239,051)	2,217,145	(11,696)

ANNEX 2 – CHANGES IN HOLDINGS AS AT 31 DECEMBER 2019

CHANGES IN THE PERIOD

€ thousand	31/12/2018	Acquisitions	Disposals	Reclassifications	Increases/ Decreases	Write-downs/ Losses/ Write-ups/ Write-downs	31/12/2019
Subsidiaries							
areti SpA	683,861	0	0	0	0	0	683,861
Acea Ato 2 SpA	585,442	0	0	0	0	0	585,442
Acea8Cento SpA	120	0	0	0	0	0	120
Acea Elabori SpA	7,209	0	0	0	0	0	7,209
Acea Energia SpA	277,044	0	0	0	0	0	277,044
Acea Ato 5 SpA	5,229	0	0	0	11,564	0	16,793
Consorzio Acea-Acea Domenicana	43	0	0	0	0	0	43
Acque Blu Arno Basso SpA	14,663	0	0	0	0	0	14,663
Ombrone SpA	19,383	0	0	0	0	0	19,383
Acque Blu Fiorentine SpA	43,911	0	0	0	0	0	43,911
Acea Ambiente Srl	32,573	0	0	0	0	0	32,573
Aquaser Srl	5,417	0	0	0	0	0	5,417
Crea Gestioni Srl	2,874	0	0	0	0	0	2,874
Parco della Mistica	60	0	0	0	0	0	60
Sarnese Vesuviano Srl	21,410	0	0	0	0	0	21,410
Acea Illuminazione Pubblica SpA in liquidation	962	0	0	0	(962)	0	0
Acea Liquidation and Litigation Srl	9,821	0	0	0	0	(1,481)	8,341
Acea Produzione SpA	43,441	0	0	0	0	0	43,441
Acea Energy Management Srl	50	0	0	0	0	0	50
Acea International SA	12,891	0	0	0	8,446	0	21,337
Crea SpA in liquidation	0	0	0	0	0	0	0
Hydreco Scarl in Liquidation	0	0	0	0	0	0	0
UmbriaDue Servizi Idrici scarl	2,877	4	0	0	0	0	2,881
Acque Industriali Srl	1,222	0	0	0	0	0	1,222
TWS SpA	64	0	0	0	0	0	64
Pescara Distribuzione Gas	0	4,290	0	0	0	0	4,290
Acea Innovation	0	10	0	0	0	0	10
Total subsidiaries	1,770,567	4,305	0	0	19,048	(1,481)	1,792,439

CHANGES IN THE PERIOD

€ thousand	31/12/2018	Acquisitions	Disposals	Reclassifications	Increases/ Decreases	Write-downs/ Losses/ Revaluations	31/12/2019
Associates							
Aguazul Bogotá SA	548	0	0	0	5	0	553
Ecomed Srl	118	0	0	0	0	0	118
Umbra Acque SpA	6,851	0	0	0	0	0	6,851
Ingegnerie Toscane Srl	58	0	0	0	0	0	58
Intesa Aretina Scarl	11,505	0	0	0	0	0	11,505
GEAL SpA	2,059	0	0	0	0	0	2,059
Umbria Distribuzione Gas SpA	318	0	0	0	0	0	318
Marco Polo SpA in Liquidation	0	0	0	0	0	0	0
Citelum Napoli Pubblica Illuminazione S.c.a.r.l.	0	0	0	0	0	0	0
Sienergia SpA in Liquidation	0	0	0	0	0	0	0
DI.T.N.E. S.c.a.r.l.	12	0	0	0	0	0	12
Total associates	26,327	0	0	0	5	0	21,475

CHANGES IN THE PERIOD

€ thousand	31/12/2018	Acquisitions	Disposals	Reclassifications	Increases/ Decreases	Write-downs/ Losses/ Revaluations	31/12/2019
Other companies							
Polo Tecnologico Industriale Romeno SpA	2,350	0	0	0	0	0	2,350
WRC PLC	0	0	0	0	0	0	0
Green Capital Alliance Società Benefit Srl	2	0	0	0	0	0	2
Total other companies	2,352	0	0	0	0	0	2,352

ANNEX 3 – SIGNIFICANT NON-RECURRING TRANSACTIONS PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

It must be noted that no non-recurring significant transactions were carried out during the period

ANNEX 4 – POSITIONS OR TRANSACTIONS DERIVING FROM UNUSUAL AND/OR ATYPICAL OPERATIONS

Pursuant to the CONSOB Communication of 28 July 2006, it should be noted that during 2019 Acea SpA has not performed atypical and/or unusual transactions, as defined by the Communication itself.

ANNEX 5 – SEGMENT INFORMATION (IFRS 8)

€ thousand	Public Lighting	Corporate	Total operating assets	Discontinuing operations	Total
Capex	3,274	21,176	24,450	0	24,450
Sector assets					
Tangible fixed assets	7,099	94,217	101,316	0	101,316
Intangible fixed assets	0	24,283	24,283	0	24,283
Financial assets	0	1,816,267	1,816,267	0	1,816,267
Other non-current commercial assets					18,636
Other non-current financial assets	33,900	192,771	226,671		226,671
Raw materials	0	0	0	0	0
Trade receivables	198	549	747	0	747
Trade receivables from the parent company	0	47	47	0	47
Receivables due from subsidiaries / associates	111	98,215	98,326	0	98,326
Other current commercial assets	0	43,202	43,202		43,202
Other current financial assets	137,920	2,548,621	2,686,542	0	2,686,542
Bank deposits					688,145
Total assets					5,704,180

€ thousand	Public Lighting	Corporate	Total operating assets	Discontinuing operations	Total
Sector payables					
Trade payables	40	107,632	107,672	0	107,672
Payables to the parent company	0	0	0	0	0
Payables to the parent company / associates	71,358	3,611	74,969	0	74,969
Other current trade liabilities					35,838
Other current financial liabilities	111	662,425	662,536		662,536
Defined benefit plans	0	23,323	23,323	0	23,323
Other provisions	0	15,882	15,882	0	15,882
Deferred tax provision					0
Other non-current trade liabilities					0
Other non-current financial liabilities					3,170,895
Shareholders' equity					1,628,812
Total liabilities					5,719,926

€ thousand	Public Lighting	Corporate	Total operating assets	Discontinuing operations	Total
Revenue from third parties	40,679	30,988	71,666	0	71,666
Intersectorial sales	0	111,568	111,568	0	111,568
Work costs	0	(60,096)	(60,096)	0	(60,096)
External costs	(45,152)	(88,027)	(133,179)	0	(133,179)
EBITDA	(4,473)	(5,568)	(10,041)	0	(10,041)
Depreciation and write-downs of receivables	(6,492)	(18,725)	(25,217)	0	(25,217)
Write-downs / recovery of fixed assets	0	0	0	0	0
Operating profit/(loss)	(10,965)	(24,293)	(35,257)	0	(35,257)
Financial (costs)/income					73,607
(Charges)/Income from investments					181,634
Net profit/(loss) from discontinued operations					0
Profit/(loss) before tax					219,983
Taxes					(11,495)
Net profit/(loss)					208,488

**BOARD OF STATUTORY AUDITORS'
REPORT TO THE SHAREHOLDERS'
MEETING
(IN ACCORDANCE WITH ART. 153 OF
ITALIAN LEGISLATIVE DECREE 58/1998)**

Dear Shareholders,

The Board of Statutory Auditors (hereinafter also referred to as "the Board") is required to report to the Shareholders' Meeting on the supervisory activities carried out during the year and on the omissions and reprehensible facts identified pursuant to art. 153 of Italian Legislative Decree no. 58/1998 (hereinafter also "TUF").

The Board of Statutory Auditors may also make comments and proposals regarding the financial statements, their approval and the matters within its remit.

Since its appointment, the Board of Statutory Auditors has carried out its institutional duties in compliance with the Italian Civil Code and Italian Legislative Decree no. 58/1998 (TUF) and 39/2010 (Consolidated Law on Statutory Auditing), the rules of the by-laws and the regulations issued by the Authorities exercising supervisory and control activities, also taking into account the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts.

In particular, the Board of Statutory Auditors monitored (i) compliance with the law and the by-laws, (ii) compliance with the principles of correct administration, (iii) the adequacy of the Company's organisational structure, the internal control and risk management system and the administrative-accounting system, as well as the reliability of the latter in correctly representing operating events, (iv) the procedures for the concrete implementation of the corporate governance rules adopted by the Company in compliance with the Corporate Governance Code of the Committee for the Corporate Governance of Listed Companies (hereinafter also referred to as the "Corporate Governance Code"), (v) the adequacy of the instructions imparted to subsidiaries pursuant to art. 114, paragraph 2 of the TUF and (vi) with reference to the obligations relating to non-financial information pursuant to Italian Legislative Decree no. 254/2016.

Furthermore, in its capacity as Internal Control and Audit Committee, the Board of Statutory Auditors performed the functions envisaged by art. 19 of Italian Legislative Decree no. 39/2010.

This report concerns the activity carried out by the Board of Auditors of Acea SpA (hereinafter also "Acea" or "Company") in the year ended 31 December 2019.

In the light of the foregoing, the information contained in Consob Communication 1025564/2001 and subsequent amendments and additions is provided below.

1. Appointment of the Board of Auditors

The undersigned Board of Statutory Auditors was appointed at the Shareholders' Meeting held on 17 April 2019 for three financial years until the approval of the 2021 Financial Statements.

The Board of Statutory Auditors in office at the date of this report is composed of Mr Maurizio Lauri (Chairman), Ms Pina Murè and Ms Maria Francesca Talamonti.

2. Self-assessment of the Board of Statutory Auditors

Upon taking office, the Board of Statutory Auditors assessed its composition, deeming it to be adequate, verifying in particular compliance with the requirements of independence, professionalism, integrity, diversity, skill and limits to the number of positions held and communicating the results of these assessments to the Board of Directors.

The members of the Board of Statutory Auditors have also stated that they have the time and expertise necessary for the complexity of their duties.

The Board of Statutory Auditors then put in place a subsequent self-assessment process in the first few months of 2020, which it reported to the Board of Directors at the meeting held on 9 March 2020 so that it could include its conclusions in the Report on Corporate Governance and Ownership Structure.

To this end, a questionnaire addressed to the members of the Board of Statutory Auditors was prepared with the support of the internal structures, which was then used to assess the correct and effective operation of the body and its adequate composition.

The questionnaire primarily consisted in statements with which the members of the Board of Statutory Auditors were asked to express their level of agreement (five possibilities ranging from "strongly disagree" to "strongly agree"), and also included questions requiring explicit answers.

The areas covered by the questionnaire included:

- Quantitative composition.
- Qualitative composition.
- Organisation of work.
- Activity carried out by the Chairman.
- Exchange of information with directors, independent auditors, the director in charge of setting up and maintaining the internal control and risk management system, the Supervisory Board pursuant to Italian Legislative Decree no. 231/2001, the Manager in Charge of Financial Reporting, the board committees, the other bodies and other functions responsible for controls and the control bodies of group companies.
- Participation in the meetings of the board of directors and of the board committees.

The results of the survey showed that there are no conditions requiring corrective action to be taken in situations where the Statutory Auditors' compliance with the necessary requirements, like independence, professionalism and integrity, is at risk.

The Statutory Auditors unanimously "strongly agreed" that the quantitative composition of the Board of Statutory Auditors is adequate to the size and complexity of the Company's organisational structure.

With regard to the analysis of the qualitative elements inherent to the professionalism required by the assignment, the following knowledge and skills were verified with the questionnaires: (i) knowledge of corporate organisation,

internal control systems and risk management relating to issues of corporate governance, internal auditing and the discipline of statutory audits; (ii) technical expertise in the legal, administrative, accounting and tax fields, financial matters and the functioning of financial markets, as well as specific knowledge of the markets and businesses the Company operates in.

The current expertise and knowledge of the members of the Board of Statutory Auditors were therefore considered adequate, both for the whole and the mix of skills and for the contribution of professionalism appropriate to the Company's control needs.

The diversity of the members of the Board of Statutory Auditors in office was assessed to adequately represent experience, origin, age and gender.

The members of the Board of Statutory Auditors also considered it very important that an overall diversity within the control body be guaranteed, with particular reference to:

- Experience/training and culture.
- Professional skills (corporate governance, accounting, risk management, internal audits, regulations applicable to the utilities sector, compliance, ESG issues).
- Background of reference and specific areas of professional expertise, soft skills, age groups and seniority.

With regard to the availability of time to carry out the duties of the office in light of its complexity, the composition of the Board of Statutory Auditors and attendance at meetings of the Board and Board of Directors, it was found that the Statutory Auditors dedicate sufficient time and resources to the performance of their duties. In this regard, it was also noted that the Board of Statutory Auditors of Acea requires a significant commitment on the part of its members, who are therefore asked to make sure that they have enough time to carry out their duties.

The effectiveness (in terms of timeliness and suitability to identify areas for improvement in the organisational, administrative and accounting structures and in the internal control and risk management system), the adequacy (with respect to the size, organisational, sector and corporate business model characteristics) and therefore the functionality (with respect to the performance of legal supervision, the monitoring of the financial and non-financial reporting process, the monitoring of the statutory audit) of the exchange of information with the main managerial interlocutors of the Board of Statutory Auditors was judged to be positive.

With regard to the meetings of the Board of Statutory Auditors, the adequacy of a number of aspects was positively assessed (also by virtue of the valuable and efficient support provided by the secretariat of the Board of Statutory Auditors), like: the time dedicated to the preparation of the meetings, the related documentation and the agenda; the availability of documentation, the frequency of meetings in relation to the size, complexity and characteristics of the Company, the average duration of the meetings; the dialectic established on the issues covered by the meeting, the timing and accuracy of the minutes, as well as the manner in which the book of meetings and

resolutions is held, as well as the dynamics of the meetings in terms of the settlement of any conflicts and making the most of contribution opportunities.

In order to facilitate the regulation of information flows that governs the methods, timing and procedures for the effective exchange of documents and information between bodies and functions, as well as to define common conduct within the Acea Group aimed at achieving uniform results in the fulfilment of the duty to report pursuant to art. 149, C III, Italian Legislative Decree no. 58/98, facilitating as far as possible the interpretation of the terms of this obligation, the Board of Statutory Auditors approved the document entitled "*Guidelines for compliance with the obligation to notify Consob of irregularities found in the performance of supervisory activities*".

Lastly, the adequacy and functionality of the attendance of the members of the Board of Statutory Auditors at the meetings of the Boards of Directors and the meetings of the Committees of the Board was verified with respect to the pursuit of the supervisory function and the performance of the duties that the law attributes to them. In particular, the possibility of timely access to the documentation of the meetings and the clarity, effectiveness and appropriateness of the interventions made by the Statutory Auditors with respect to the items on the agenda were verified.

As part of the self-assessment, based on the information in its possession, the information requested and acquired, as well as on the declarations made by the individual members, the Board of Statutory Auditors verified and confirmed that all its members meet:

- The independence requirements envisaged by law (art. 148, paragraph 3 of the TUF) and by the Corporate Governance Code (art. 3.C.1 and 8.C.1) for statutory auditors of listed companies.
- The requirements of professionalism, integrity, expertise and experience in accordance with the provisions of articles 1 and 2 of Italian Ministry of Justice Decree no. 162 of 30 March 2000 ("*Regulation containing rules for the establishment of the requirements of professionalism and integrity of the members of the Board of Statutory Auditors of listed companies to be issued on the basis of article 148 of Italian Legislative Decree no. 58 of 24 February 1998*").
- The requirements of art. 22 of the by-laws.

It also verified that each member of the Board of Statutory Auditors complied with the provisions of the applicable laws and regulations (art. 148-bis of the TUF and art. 144-duodecies to 144-quinquiesdecies of the Issuers' Regulations) with regard to the limits on the number of posts held.

Moreover, also in accordance with the provisions of art. 19 of Italian Legislative Decree no. 39/2010, it was verified that the members of the Board of Statutory Auditors, as the Internal Control and Audit Committee, as a whole are competent with regard to the professional duties pertaining to the sector the company operates in.

In light of the information in its possession, at present the Board of Statutory Auditors has therefore assessed how adequate its composition is, having regard to the requirements of professionalism, diversity, expertise, integrity and independence required by law.

3. Activities and Organisation of the Board of Statutory Auditors

During the year (period from 17 April to 31 December 2019), the Board of Statutory Auditors carried out the activities it was responsible for, holding 16 meetings, each lasting an average of approximately 4 hours.

The Board of Statutory Auditors also attended (from 17 April to 31 December 2019) 8 meetings of the Board of Directors, 8 meetings of the Control and Risk Committee, 6 meetings of the Nominations and Remuneration Committee, 6 meetings of the Ethics and Sustainability Committee, 2 meetings of the Executive Committee and 4 meetings of the Related Parties Committee.

During the meetings of the Board of Directors, during which, among other items on the agenda, the most important economic, financial and equity transactions of Acea SpA and its subsidiaries were examined, the Board of Statutory Auditors received the information referred to in art. 150, paragraph 1 of the TUF.

Based on the information acquired through its supervisory activities, the Board of Statutory Auditors has not become aware of any transactions carried out during the year to which this report refers from the date of its appointment that were not based on the principles of correct administration, resolved and carried out in breach of the law and the by-laws, not in the interest of Acea SpA, in contrast with resolutions passed by the Shareholders' Meeting, manifestly imprudent or reckless, lacking the necessary information in case of Directors' interests or compromising the integrity of the company's assets.

The Board of Statutory Auditors oversaw the Board of Directors' decision-making procedures and verified that the management decisions were compliant with the applicable regulations (substantive legitimacy), adopted in the interest of the Company, compatible with the Company's resources and assets and adequately supported by information, analysis and verification processes.

The Board of Statutory Auditors therefore believes that on the whole the tools, institutions and governance adopted by the Company constitute a suitable control for the observance of the principles of correct administration of operations.

The Board of Statutory Auditors prepares an annual agenda with dates, times and topics drawn up in coordination with the agenda of the Board of Directors and the Board Committees in order to promote a suitable integrated governance of the corporate bodies, which is

shared with all stakeholders in order to allow the appropriate planning of its commitments and the necessary information flows requested by the Board of Statutory Auditors.

In particular, the Board of Statutory Auditors has defined beforehand, on an annual basis, the information flows required of management and other corporate bodies.

The minutes of the Board of Statutory Auditors are always sent in full to the attention of the Chairman of the Board of Directors, the Managing Director and the Chairman of the Control and Risk Committee to ensure a suitable and appropriate flow of information within the company.

Where pertinent, the minutes of the Board of Statutory Auditors are also always sent to management in order to ensure adequate written information on the recommendations/requests of the Board of Statutory Auditors.

The Board of Statutory Auditors has developed and adopted a system that allows complete traceability of the requests made. A finding is opened for each request, which is closed only when management confirms that the agreed corrective action has been taken.

As a permanent invitee, the head of the Internal Audit Department participates in the work of the Board of Statutory Auditors in order to allow continuous interaction of the corporate body with the third-level control function.

4. Transactions of particular significance

The most significant transactions carried out by the Acea Group during 2019 are specified in the documentation relating to the financial statements submitted for your approval.

In particular, the Board of Statutory Auditors highlights the following:

- With regard to the well-known events relating to the coronavirus pandemic, the Board of Statutory Auditors has acquired information from management proving the implementation of all the measures envisaged for the protection of the health and safety of workers and, more generally, of the communities in the areas the Acea Group operates in.
- On 8 January 2019, the Acea Group was notified of an order of the Italian Antitrust Authority with an administrative fine of € 16 million against Acea, Acea Energia and areti, jointly and severally among them, with reference to proceeding no. A 513 for abuse of a dominant position in the electricity sales market, which the Acea Group challenged at the Lazio administrative court. On 17 October 2019, two separate rulings were published on the appeals filed by Acea, Acea Energia and areti with which the Lazio Regional Administrative Court completely annulled the administrative fine of € 16 million imposed jointly and severally on these companies by the Antitrust Authority (AGCM) with order no. 27496 of 20

December 2018, which referred to alleged anti-competitive conduct in the electricity sales market. The AGCM appealed to the State Council.

- On 16 May 2019 there was a successful placement of a non-convertible bond issued under the EMTN Programme for a total of € 500 million over 9 years.
- Fitch Ratings confirmed Acea's rating at "BBB+ with "stable" outlook, while Moody's confirmed Acea's rating at "Baa2" with "stable" outlook.
- On 29 January 2020 Acea successfully placed a non-convertible bond of € 500 million issued under the nine-year EMTN Programme.

Like the non-financial data, the 2019 data of the individual and consolidated financial statements show significant progress towards the objectives of a business plan focused on regulated infrastructures. The Group demonstrates a significant capacity to create value for shareholders and economic margins (both in terms of EBITDA and net profit) and financial margins, with a prudent evolution of the net financial position in line with the company's development.

Improvements were recorded in all company sectors, from water (which benefited from the consolidation of Gori SpA and AdF SpA) to electrical infrastructure (which saw significant investments to increase the resilience of the grid), the environmental area (with a significant increase in the quantities treated and good plant continuity) and the energy market (where improvements in the management of working capital and the attention paid to customer care are worthy of note).

Consolidated net revenues amounted to € 3,186 million, an increase of € 158 million (+5%) compared to 2018, mainly due to the increase in revenues from the integrated water service (+€ 221 million).

EBITDA rose from € 933 million in 2018 to € 1,042 million at 31 December 2019, an increase of € 109 million (+12%). The contribution of the industrial segments to consolidated EBITDA (about 81% derives from regulated activities) is as follows: Water 48%, Energy Infrastructure 37%, Commercial and Trading 7%, Environment 5%, Overseas 2%, Engineering and Services 1%.

The operating result (EBIT) of € 518 million marks an increase of € 40 million (+8%) compared to 2018.

The increase is mitigated by the increase in amortisation and depreciation (+€ 43 million compared to 2018), mainly due to the change in the scope of consolidation of € 40 million (of which € 21 million relating to Gori SpA and € 4 million to AdF SpA).

The Group's net profit amounted to € 284 million, an increase of € 13 million compared to 2018 (+5%).

Investments made in 2019 amounted to € 793 million, a significant increase compared to the previous year (€ 631 million), of which approximately 81% was allocated to regulated activities. The Group remains determined to make major investments in infrastructure that, while maintaining the solidity of its consolidated financial structure, have a positive impact on the operating and financial performance.

The change in net working capital at 31 December 2019 was negative by € 16 million, an improvement of approximately € 20 million compared to 2018 (-€ 35 million in 2018). The absorption of working capital for regulatory purposes amounted to € 41 million. The excellent trend of working capital is driven by the collection performance in all business areas, particularly the commercial segment, as a result of the overall managerial review (in terms of processes and methods) of the activities that oversee the management of receivables.

The Group's net financial debt recorded an overall increase of € 495 million, from € 2,568 million at the end of 2018 to € 3,063 million at 31 December 2019. This change is a consequence of the increase in investments during the period and the dynamics of the company's operational development.

The first-time application of IFRS 16 also contributed to the increase in debt for € 64 million, in addition to the effects of the consolidation of AdF SpA and M&A operations. The NFP/EBITDA ratio as at 31 December 2019 was 2.9x. At 31 December 2019, 80.7% of debt is fixed rate in order to ensure protection against any increases in interest rates as well as any financial or credit volatility.

At 31 December 2019 the average duration of medium/long-term debt stood at 5.8 years. Note that the reduction of the average cost of debt went from 2.21% on 31 December 2018 to 2.15% on 31 December 2019.

The optimal strategic and territorial positioning as well as the effective management underscore the existence of further possibilities for development that the company believes it can pursue in the near future, always bearing in mind the need to balance developments in profitability with a prudent propensity to risk and the maintenance of a high level of control to ensure sustainable behaviour in full compliance with current regulations.

A strategic development that can be monitored on an ongoing basis by the Board of Directors, also through a process of assessment of the Group's new investment projects that, on the one hand, through a continuous overall vision of the ongoing initiatives allows their connection with the objectives of the Strategic Plan, and on the other hand, through a complete assessment of the inherent risks assumed, a consequent complete evaluation of the costs/risks/benefits of the projects subject to the Board's assessment.

In fact, it seems clear that the company strategy must define a virtuous balance between the opportunities for growth of the company's scope, even rapid, and the risks assumed until the complete integration of the acquired companies into the Acea Group systems.

5. Atypical or unusual operations

The documents submitted for your approval, the information received during the meetings of the Board of Directors and the information received from the Chairman and the Managing Director, the management, the Boards of Statutory Auditors of directly controlled companies and the statutory auditor did not reveal the existence of atypical and/or unusual transactions, including intra-group transactions or transactions with related parties.

6. Intergroup or related-party transactions

Intra-group transactions or significant transactions with related parties are specified in the documents relating to the financial statements submitted for your approval.

Of particular note:

- On 10 June 2019 the Official Gazette included Italian Legislative Decree no. 49 of 10 May 2019 ("Decree") implementing Directive (EU) 2017/828 (Shareholder Rights Directive II, "Directive"), amending Directive 2007/36/EC as regards encouraging long-term shareholder engagement.
- With the revision of the Shareholders' Rights Directive, a specific regulation of related party transactions was introduced for the first time at a European level.
- Article 9-quater of the Directive defines the regulation of transactions with related parties by identifying a precise subjective and objective scope of application: it is addressed to companies with shares listed on regulated markets and intends to regulate only those transactions that exceed a certain threshold of significance (so-called material transactions).
- The amendments to the Decree concern art. 2391-bis of the Italian Civil Code, with the introduction of a new third paragraph that assigns Consob the task of defining or maintaining, where compatible, certain provisions functional to the concrete application of the regulations and the definition of the scope of application of different regulations.
- The transposition of the European rules on related party transactions can only be considered completed once the legislative delegation has been executed and the relevant secondary rules have been properly aligned, to the extent deemed necessary. To this end, on 31 October 2019 Consob submitted for consultation a proposal to amend Consob Regulation no. 17221/2010 ("RPT Regulation") and announced that it will also update the related regulations. The consultation to implement the delegation contained in Italian Legislative Decree no. 49 of 10 May 2019 ended last December. At the date of this report, the final measures had not yet been taken by the authority.

- The planned amendment of the RPT Regulation and Consob Communication DEM/10078683 of 24 September 2010 will require issuers to carry out the necessary assessments to identify corrective measures for their internal procedures regarding related party transactions.
- It follows that the discipline outlined by the new article 2391-bis of the Italian Civil Code, which currently still needs to be adequately implemented as part of the revision of the RPT Regulation, is not immediately applicable.
- It is understood that as soon as the new RPT Regulations are adopted, the Company will have to carry out an analysis – in addition to the activities carried out so far – of the new provisions introduced in order to update the RPT Procedure.

7. Supervisory activities pursuant to the Consolidated Law on Statutory Audits

The Board of Statutory Auditors, identified by the Consolidated Law on Auditing as the "Committee for Internal Control and Statutory Audit", oversaw:

- The financial reporting process.
- The effectiveness of internal control, internal audit and risk management systems.
- The statutory audit of annual accounts and consolidated accounts.
- The independence of the external auditor (hereinafter also "auditor", "external auditor" or "audit firm"), in particular as regards the provision of non-audit services.

The Board of Statutory Auditors examined the reports prepared by the external auditor PwC SpA, whose activity supplements the general framework of the control functions established by the regulations with regard to the financial and non-financial reporting process.

On 27 April 2017, the Acea SpA Shareholders' Meeting appointed PwC SpA to audit the accounts for the period 2017-2025, including the statutory audit of the consolidated and separate financial statements, the limited audit of the condensed separate financial statements at 30 June and the audit of the separate annual accounts of Group companies that fall within the scope of unbundling regulations.

These reports, issued on 16 April 2020 in accordance with article 14 of Italian Legislative Decree no. 39/2010, to which reference should be made, show that the Group's separate financial statements and consolidated financial statements were prepared in accordance with the IAS/IFRS standards issued by the International Accounting Standards Board, adopted by the European Union and in force at 31 December 2019, as well as in accordance with the measures issued to implement art. 9 of Italian Legislative Decree no. 38/2005 and subsequent amendments and additions.

Therefore, they are clearly stated as having been prepared in such a way as to give a true and fair view of the financial position, results of operations and cash flows for the year ended 31 December 2019.

During 2019 there were no changes in the accounting standards compared to those used in the previous year for the preparation of the financial statements, with the exception of the effects of IFRS 16 (the impacts for the Group deriving from the application of this standard were not significant, and the independent auditors did not comment on the approach followed for the transition – modified retrospective – and on the decision not to account separately for the non-lease component of mixed contracts) and IFRIC 23.

Moreover, in the opinion of the external auditor, the Management Report and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of art. 123-bis of the TUF contained in the Report on Corporate Governance are consistent with the financial statements.

The Board of Statutory Auditors also examined the additional report issued by the external auditor to the "Internal Control and Audit Committee" on 16 April 2020, pursuant to article 19 of Italian Legislative Decree no. 39/2010, in which it illustrated: i) the main aspects of the audit; ii) the levels of significance for the consolidated and separate financial statements; iii) the audit plan; iv) the scope and method of consolidation; v) the audit methodology and valuation methods applied in the consolidated and separate financial statements; vi) the areas of focus relating to the consolidated and separate financial statements; vii) the activities carried out by the audit team.

In the same document, the external auditor also certified that no significant audit differences were found in the consolidated and separate financial statements, nor were significant deficiencies identified in the internal control system with respect to the financial reporting process, listing the obligatory communications made to the corporate bodies and finally acknowledging that, from the checks on the regular maintenance of the corporate accounts and the correct recording of operating events in the accounting records, no significant aspects emerged to report.

The main areas covered in the report (also expressed as references to information in the certification report) mainly relate to:

- Receivables due from Roma Capitale (as part of the activities necessary for the first consolidation of the Acea Group in the 2018 financial statements of Roma Capitale, a roundtable was launched to reconcile the related receivables and payables and it formally concluded its activities in October 2019. In December 2019, the municipality of Rome published its consolidated financial statements for the year 2018, showing the credit and debit positions recorded against the Acea Group, which substantially coincide with the positions reported by the Acea Group on the same date. The Board of Statutory Auditors believes that the controlling partner, in the role of customer/supplier of the Acea Group, also in light of the importance of its conflict of interest as a controlling partner/customer/supplier, must be able to ensure punctual fulfilment in the continuous complex process of the local authority aimed at the validation and settlement of the Acea Group's receivable claims, thus allowing the continuation of a balanced financial situation that prevents the existence of significant receivables from the controlling shareholder. Likewise, it recommends that discussions be held with Roma Capitale to reconcile the receivables and payables for 2019, along the lines of what was done for 2018).
- Ato 5 SpA (a company involved in significant tax, regulatory, administrative and criminal litigation against various authorities, fully described in the documents of

the consolidated financial statements, which require continuous monitoring for the consequent assessments prescribed by the accounting standards of reference. In particular, in the documentation submitted for your approval, you will find the current developments with regard to the ongoing investigations by the Authorities into alleged violations of the applicable regulations, which may lead to the application of sanctions – some already imposed – of varying amounts within a very broad spectrum, depending on a multiplicity of factors. At the moment, investigations and litigation are under way, and therefore based on the information provided by the company's lawyers, where the risk has been assessed by them as possible since it is not possible to quantify its final effect precisely, information has been provided in the notes to the financial statements. Where the risk has been assessed as probable, provisions have been made based on the best information available. Although it is currently impossible to determine the exact form, extent or duration of any measures taken by the competent authorities, any liability that may arise could result in cash outflows or potentially have a negative effect on the shareholders' equity and net results of the Company and/or the Group. Acea SpA's shareholding in Ato 5 SpA was subject to an impairment test as at 31 December 2019 (together with all the other shareholdings recorded in Acea SpA's financial statements) which, in confirming the recoverability over time of the book value recorded in the financial statements in light of the business plan envisaged by management for the company, showed a small headroom (difference between carrying amount and equity value) such that future requirements for further write-downs of the book value of the investment cannot be excluded if the actual development of the company's business should differ from the forecasts in the business plan underlying the impairment test. The business plan is currently being implemented with the aim of overcoming existing critical issues through managerial actions aimed at (a) protecting water resources (b) combating abuse and (c) combating delinquency. Similarly, the company has a significant indebtedness to the parent company Acea SpA, whose full recoverability is expected in light of the financial plans envisaged by Ato 5 SpA, since the need to write down the receivable of Acea SpA cannot be ruled out if cash dynamics should emerge over time in Ato 5 SpA that differ from what is foreseen in the company's planning documents).

- The complexity of regulatory measures, with particular reference to matters underlying the approval process of water tariffs. Pending the completion of the approval procedures for some water tariffs that are still in progress, the revenues recorded by the Group for the integrated water service are determined on the basis of the tariff regimes previously approved by ARERA or the respective Area Governing Bodies. In this regard, on 5 February 2020 ARERA confirmed the approach used by the Group for the recognition of water revenues, indicating the following: "with regard to the proposals for the bi-annual update of the tariff arrangements for the years 2018 and 2019 sent by the area governing bodies, but not yet affected by specific acts of approval by the Authority, it is clarified that the Authority will complete the investigations aimed at ascertaining the consistency of the relevant technical and tariff data as part of the checks on the specific regulatory schemes proposed for the third regulatory period (2020-2023). For the two-year period 2018-2019, the tariff determinations adopted by the competent entity remain valid, which will be assessed by the Authority – as part of the quantification of the adjustment components – when approving the new regulatory scheme".

In line with its business plan, in 2018 and 2019 the Acea Group implemented a series of activities aimed at expanding the Group in its operating sectors. In particular, the transactions concerned both acquisitions of companies and the revision of shareholders' agreements of associated companies that led to the acquisition of control. Following the acquisition of control (both for acquisition and for the audit of shareholders' agreements), for the purposes of the consolidated financial statements the Company is required within 12 months to allocate the price paid on the basis of the requirements of IFRS 3. With regard to the 2018 acquisitions, the Company completed the purchase price allocation transactions for two companies, one of which (Gori SpA) consolidated through the modification of the shareholders' agreements (with the determination of the acquisition price by an independent expert carried out through the revaluation of the price paid on the original acquisition of the shares at the date of acquisition of control). For the companies included in the scope of consolidation during 2019, a provisional allocation of the price paid was made, in accordance with the accounting standards of reference. The purchase price allocation will be completed in 2020 and will involve 17 companies, one of which (AdF SpA) with acquisition of control, like Gori SpA, through the revision of the shareholders' agreements).

During the year, the Control and Risk Committee and the Board of Directors approved the updating of the impairment test procedure at the meetings held on 17 and 19 February 2020, respectively. With the updating of the procedure, the process, roles and responsibilities for the preparation of the impairment test have been more fully defined in line with the requirements of IAS 36.

During the meeting held on 9 March 2020, the Board of Directors examined the results of the impairment test at 31 December 2019 aimed at assessing the recoverability of the value in use of equity investments recorded in the financial statements and prepared in accordance with the aforementioned procedure, noting that there was no need to write down the book value of equity investments recorded in the financial statements submitted for your approval. The financial flows used for the valuations were drawn up on the basis of the 2020 budget and the business plan approved by the Board of Directors, drawn up with a constant regulatory scenario. Considering the difficulty of developing forecasts of long-term profitability, sensitivity analyses were also prepared considering hypotheses of an increase in the discount rate compared to the regulator's base rate which did not show any need for write-downs (with the substantial exception of the investment in Ato 5 SpA, which has particularly modest headroom – the difference between recoverable value and book value – even in the event of significant increases (compared to current forecasts of interest rate trends) in the discount rate of reference.

Since the market capitalisation of Acea SpA is higher than the value of the Group's shareholders' equity, the second-level impairment test was not carried out.

The external auditor periodically met with the Board of Statutory Auditors in accordance with the provisions of art. 150, paragraph 3 of the TUF for the purpose of exchanging reciprocal information, and did not bring to the attention of the Board of Statutory Auditors any acts or facts considered reprehensible or irregularities that required the formulation of specific reports pursuant to art. 155, paragraph 2 of the TUF.

In agreement with the external auditor, the Board of Statutory Auditors has defined Audit Quality Indicators whose purpose is to provide the Board of Statutory Auditors, in its function as Internal Control and Audit Committee, with support in assessing the quality of the audit, with a particular focus on the assessment of the quantitative and qualitative dimensions of the audit service, the assessment of the necessary skills of the auditor and the safeguards put in place by the auditor with regard to independence.

The agreed indicators relate to measures of the level of professional experience of audit team members, the level of training they have acquired over time, the involvement of senior audit team members (the assumption being that the quality of the audit increases with higher levels of involvement by senior members), with particular regard to indicators of the workload of partners and senior managers. The level of involvement of staff with specialised expertise in the audits is also monitored, as well as indicators to ensure auditor independence with regard to fees received for non-audit services.

In this regard, during the year the Board of Statutory Auditors proposed the adoption of a specific procedure for the approval of additional tasks to the independent auditors and their network within the Acea Group, which was approved to the extent of its respective responsibilities by the Board of Directors at its meeting of 31 July 2019 and which aims to ensure compliance with the independence requirement of the party appointed to perform the statutory audit, including through the timely application at the Acea Group level of the provisions of Regulation EU 537/2014.

Given the importance that the Board of Statutory Auditors attributes to the principle of professional scepticism that must characterise statutory auditing, a meeting was also organised between the Board of Statutory Auditors and the Quality Review Partner of PwC

SpA assigned to the Acea Group, during which the latter fully illustrated all the activities carried out with regard to the quality control of the auditing process.

The Board of Statutory Auditors examined the declaration on the independence of the external auditor pursuant to article 17 of Italian Legislative Decree no. 39/2010, issued by the latter on 16 April 2020, which does not indicate situations that have compromised its independence or causes of incompatibility pursuant to articles 10 and 17 of that decree and its implementing provisions.

Based also on the declaration of the external auditor, the Board of Statutory Auditors points out that in addition to the audit engagements envisaged by the Shareholders' Meeting resolution, during the 2019 financial year the PwC network was awarded a fee for the following non-auditing services:

Services other than auditing provided to Acea SpA during the year 2019

Category	Supplier	Service Description	Amount (/mgl)
Audit Related	PwC SpA	Review limited to DNF 2019	50
Audit Related	PwC SpA	Audit of separate annual accounts 2019	15
Audit Related	PwC SpA	Comfort Letter issue on ENTM	120
Audit Related	PwC SpA / Network PwC	ISA 805 audit research and development tax credit	250
Total certification services			435
Non-Audit Service	PwC SpA	Support for activities related to requirement law 262/05	113
Non-Audit Service	PwC Network	Test verification system for automated tax calculation	150
Non-Audit Service	PwC Network	Financial & Tax due diligence	180
Total other services			443

8. Supervision of the financial disclosure process

The Board of Statutory Auditors has examined the internal rules relating to the internal control system for financial reporting, i.e. all the activities to identify risks/controls and the procedures adopted to ensure the achievement of the objectives of accuracy, reliability and timeliness of financial reporting with reasonable certainty. This system constitutes the presumption that the Executive responsible for preparing the company's financial reports (hereinafter the "Financial Reporting Officer") appointed pursuant to Italian Law 262/2005, together with the Managing Director, can issue the declarations required by art. 154-bis of the TUF.

In its capacity as the Internal Control and Audit Committee pursuant to Italian Legislative Decree no. 39/2010, the Board of Statutory Auditors met periodically with the Financial Reporting Officer and the Independent Auditors for an exchange of information that involved, among other topics, the new management and control model of the Acea Group pursuant to Italian Law no. 262/2005 (hereinafter the "262 Model").

In fact, in 2018 the opportunity arose within the Acea Group to revise and update the 262 Model to bring it in line with the Group's evolution and best practices. On 15 May 2019 the Acea SpA Board of Directors therefore approved a new management and control model for the Acea Group pursuant to Italian Law 262/05, which was subsequently also approved by the Boards of Directors of the subsidiaries relevant for the purposes of Italian Law 262/05. The model defines the guiding principles and methodological approach for the establishment, assessment and maintenance of the internal control system that oversees the preparation of the financial statements, illustrating the main components of the 262 framework adopted by the Acea Group. The model is supplemented by a regulation (which establishes the position of Financial Reporting Officer and regulates his/her activities) and an annex to the regulation that regulates the internal information flows within the Acea Group (internal chain of certificates) to allow the issuing of the certificates referred to in art. 154-bis of the TUF. In addition to the documents mentioned above, the internal control system for financial reporting consists of the manual of group accounting standards, the guide to the closure of the consolidated financial statements and the checklist for the collection and processing of accounting data at the end of the period.

The definition of the Acea model is based on the principles set out in the COSO Report, supplemented by the principles of the COBIT framework with regard to the design and operation of IT controls.

The Board of Statutory Auditors reviewed the independent test plan of the Financial Reporting Officer and the results of the first phase of a project aimed at implementing the improvement actions highlighted by an overall administrative and accounting risk assessment.

In fact, the activities carried out in 2018 had found an internal control system for financial reporting with some opportunities for improvement, and in response an overall updating of all administrative and accounting procedures was launched in 2019.

This activity was carried out on the basis of a risk-based approach that involved the identification of risks at an inherent level, the identification of relevant controls and the assessment of residual risk net of the controls. Where possible, the updating of procedures led to an increase in the controls to be put in place, with a consequent reduction in the residual risk. Where this is not possible, the relevant actions to mitigate high residual risks were defined through the definition of appropriate compensatory verification procedures.

In 2019 a first tranche of administrative and accounting processes was analysed concerning both the quantitatively significant operating companies (Acea Energia, areti, Ato 2) and the activities of Acea SpA directly related to the preparation of the financial statements (for a total of 43 processes out of a total of 83 processes that

will be the subject of analysis and updating). During 2020 this activity will be completed through the analysis and updating of the remaining 40 processes in the scope.

In addition, in view of the declarations made by the process managers and in order to have an independent audit to ensure the effective performance of the controls and their substantial effectiveness, testing was performed by the Financial Reporting Manager.

The Board of Statutory Auditors noted that in addition to making the relevant declarations, the Financial Reporting Officer reported to the Board of Directors on the activities and controls carried out with regard to the financial statements as at 31 December 2019, without finding any critical issues to be included in this report.

The companies included in the "262 Model" have been identified as either quantitatively relevant (based on total assets, net revenues, net result) or qualitatively relevant (Acea Ato 5, Acea Ambiente, Gori). The relevant processes have been identified using as a quantitative parameter the "materiality" applied to the consolidated financial statements (based on pre-tax profit, total assets, shareholders' equity).

The analyses carried out revealed 91 significant processes, which led to the identification of 1,860 activities related to them, on which 3,436 controls are still in place.

In 2019 the Group implemented a specific strategy for training employees on Acea's internal control system for financial reporting, which involved the provision of e-learning courses that were successfully passed by 88% of participants.

The Board of Statutory Auditors considers particularly important the current activities aimed at eliminating a still significant manual component of the management system for information flows within the Group, to be carried out through the adoption of a web-based information system with peripheral contributors (the companies of the Group) and recommends that it be completed and launched on time.

The Board of Statutory Auditors therefore recommends that the Group continue on the path of refining the current setup of the administrative and accounting system – in terms of accounting policies, processes and procedures, organisational structure, IT and data governance – considering it very important that in 2020 the process of analysis and updating of the processes within the scope be completed, as well as:

- Defining guidelines of a general nature that reduce the margins of discretion in the application of accounting standards in order to present an increasingly clear picture of the responsibilities and competences of the various parties involved in the accounting process between subsidiaries and the parent company.
- Providing for a strengthening of the parent company's ability to align and control the conduct and choices adopted by the subsidiaries, while respecting their decision-making and organisational autonomy.

During periodic meetings with the Board of Statutory Auditors for the purpose of exchanging information, the Financial Reporting Officer did not report any significant shortcomings in the operating and control processes that could affect the opinion on the adequacy and effective application of the administrative-accounting procedures, in order to provide a correct economic, equity and financial representation of operations in accordance with international accounting standards. Based on the work done, having also taken into account the results of the testing carried out in accordance with the monitoring plan of the system of controls on the financial reporting process, as well as the areas of improvement identified in the activities carried out for the purposes of the relevant declarations, the latter signed the declaration of the separate and consolidated financial statements as at 31 December 2019 pursuant to art. 154-bis of Italian Legislative Decree no. 58/98.

During the periodic meetings held to exchange information, as well as in the additional report prepared pursuant to art. 19 of Italian Legislative Decree no. 39/2010, the Statutory Auditor in turn did not report any significant critical aspects of the internal control system relating to the financial reporting process.

In light of the information received and the documentation examined, having recommended the completion of the improvement actions planned by the management within the set time frame, having taken note of the activities being completed on the overall redesign of the administrative and accounting procedures and those relating to the implementation of an automatic information flow management system within the Acea Group, and considering the support that will be provided to the Financial Reporting Officer by the Internal Audit Department, which has specialised IT skills to verify the design and operation of IT General Controls, the Board of Statutory Auditors considers the administrative and accounting system in place to be substantially adequate to the requirements of current regulations.

9. Supervision of the non-financial reporting process

The Board of Statutory Auditors examined the process for the preparation of the Sustainability Report - Non-Financial Statement pursuant to Italian Legislative Decree no. 254/2016 (prepared in accordance with GRI standards) and the related Environmental Report.

This Declaration has been subjected to a limited assurance by PriceWaterhouseCoopers SpA, which issued a statement regarding the conformity of the information provided with respect to the requirements of Italian Legislative Decree no. 254/2016 and with respect to the principles and methods set out in the adopted reporting standard.

The auditor also carried out sample checks on the processes that support the acquisition and consolidation of the quantitative and qualitative data set out in the statement and substance tests on the performance indicators (KPIs) defined according to the standards adopted or defined by the Group (GRI).

In the course of meetings with the management responsible for preparing the documentation in question, the Board of Statutory Auditors was informed of the corporate scope of the statement and received full information on the various stages of the process that led to the development of the materiality matrix (noting the selection of the GRI standard indicators applied by the Acea Group in its non-financial reporting).

The subject of a specific procedure, this process aims to identify the main financial, governance, social and environmental issues (so-called "material" issues) related to the company's business and to define their prioritisation on the basis of the assessments expressed by stakeholders and the company.

Besides being a strategic reference, the identification of the "Acea materiality matrix" through direct discussions with the stakeholders is necessary to identify the aspects to be included in the sustainability report in greater or lesser depth depending on the results of prioritisation, and to select the indicators required by the adopted standards.

The data and information published are provided by the Industrial segments, the companies included in the reporting scope and the parent company functions responsible for the data requested (data owner). The data and information are processed – and if necessary reclassified in application of the standards of reference – by the working group within the parent company that drafts the document, and submitted again to the areas/companies/functions responsible for final validation, formalised by the issue of a specific declaration.

The Board of Statutory Auditors highlights the work carried out by the Company to ensure consistency between the UN Sustainable Development Objectives ("Agenda 2030"), the value guidelines expressed in the Acea Code of Ethics and the Group's strategic objectives.

Among these, for the Board of Statutory Auditors it is particularly important for Acea to implement a Group innovation model that aims to promote the spread of a culture of innovation involving all the people of the Group through the adoption of processes and approaches typical of open innovation, also strengthening Acea's position in the innovation ecosystem through the identification of new business opportunities.

Similarly important in the opinion of the Board of Statutory Auditors is the centrality attributed by management to human resources, seen as an essential corporate resource needed to respond effectively to business challenges. Entrepreneurship, teamwork and action are the three driving values of the Leadership Model which the Group's initiatives are built on to achieve the goals of the strategic plan and the sustainability plan (which include the recognition of the strategic value of diversity and the health and safety of workers).

Equally important for the Board of Statutory Auditors is the virtuous partnership that the Company seeks to establish with the supply chain. In fact Acea attributes greater value and reliability to contractors that have certified quality, environmental, safety, energy and social responsibility management systems and provides a self-assessment questionnaire on these issues for the majority of suppliers that register for qualification systems. With the aim of raising awareness and supporting the continuous improvement of the supply chain, Acea also carries out second-party verifications and strict safety controls at construction sites. This brings to light good practices and, at the same time, identifies shared paths towards growth and improvement.

In this perspective of increasing alignment between the business and sustainability strategies, in 2019 Acea updated its Sustainability Plan to 2019-2022, which was approved by the Board of Directors in December 2019.

In this regard, it is particularly important for the Board of Statutory Auditors to progressively incorporate sustainability aspects into the company's management, taking into account both the sustainability aspects related to the industrial guidelines of the business areas and the material issues defined by listening to stakeholders and the sustainable development objectives of Agenda 2030.

In this sense, the guidelines expressed in the Group's two strategic plans – business and sustainability – must be read in an integrated manner, which enhances the peculiarities and complementarity between the two, one focused on aspects related to the financial solidity of business growth, and the other on the expected results with respect to stakeholders and from a social and environmental point of view, all within the framework of the relevant UN sustainable development objectives (SDGs).

In the opinion of the Board of Statutory Auditors, the issue of climate change is of particular importance and represents one of the elements demanding the greatest attention from a social, environmental and economic point of view, as evidenced by the positions expressed by the European Union or by qualified international bodies, like the TCFD (Task Force on Climate-related Financial Disclosures) set up within the Financial Stability Board. In this context, the Board of Statutory Auditors particularly appreciated CDP's latest A- rating for Acea (improving on the rating received the previous year), falling into the Leadership category.

In addition to more challenging environmental objectives, linked in particular to the fight against climate change (mitigation and adaptation), the efficient use of resources and a logic of circular economy, new targets have been set for the development of a structured approach to stakeholder involvement, employee welfare and the widespread dissemination of a culture of safety within the Group and along the supply chain, as well as technological innovation applied to all the Group's

infrastructure, to increase its intelligence and resilience, including by pooling excellence and skills as well as working with partners to develop research projects.

In this context, the investments envisaged in the 2019-2022 Business Plan related to sustainability targets amount to a total of € 1.7 billion.

During 2019, the amount of investments related to sustainability objectives amounted to approximately € 328.5 million (€ 503.5 million in 2018/2019).

This attention to sustainability issues, fully shared by the Board of Statutory Auditors, was also expressed in October 2019 on Acea Sustainability Day, an opportunity for the Company and representatives of institutions, research, businesses and experts in the field to discuss the scenarios and challenges posed by an economic and social system progressively marked by sustainable development.

Particularly important for the Board of Statutory Auditors is the implementation in most of the Group companies of suitable integrated management systems certified according to UNI EN ISO standards, monitored by the Quality, Environment, Safety and Energy Function of Acea SpA, which facilitates environmental compliance and a sustainability policy that guides the Group's approach to respect and protection of the environment, also in line with the principles specified in the Code of Ethics.

10. Supervision of the adequacy of the internal control system, risk management and organisational structure

A. Internal Control System

Acknowledging the contents of the Corporate Governance Report on the adequacy and effective operation of the internal control system, the Board of Statutory Auditors reviewed the 2019 Reports of the Internal Audit Function and the Control and Risk Committee.

In particular, the Board of Statutory Auditors points out that during the year:

- The necessary functional and informative liaison was maintained with the Control and Risk Committee, the Supervisory Board and the Heads of the Internal Audit and Risk & Compliance Functions on the methods of carrying out the assessment, supervision and control tasks entrusted to them, relating to the adequacy, full operation and effective functioning of the internal control and risk management system, as well as the results of the audits performed by the Internal Audit Function in accordance with the audit plan approved by the Board of Directors and the results of the risk assessment carried out by the Risk Management Function.

- It noted that the Control and Risk Committee issued the relevant opinions, as required by the Code of Conduct for Listed Companies, without finding any critical issues to be included in this report.

Acea adheres to the Code of Conduct for Listed Companies and has adopted an Internal Control and Risk Management System (hereinafter also referred to as the "System" or "SCIGR") consisting of all the people, tools, organisational structures, rules and regulations designed to enable the Acea Group to be managed soundly, correctly and consistently with corporate objectives through an adequate process of identification, measurement, management and monitoring of the main risks.

The Manager of the Internal Audit Function has periodically updated the Board of Statutory Auditors on the activities carried out and the main results of the audits performed, communicating the corrective actions identified and shared with the Company's management, indicating implementation deadlines and specific implementation responsibilities.

The documents presented during the periodic exchange of information with the Board of Statutory Auditors summarised the results of the audits carried out – both planned and on request – underscoring the macroprocesses analysed, the companies involved and the audit team's summary opinion on the process control system for each audit. For each completed audit, based on the findings, suggestions and recommendations improvement plans were issued by the managers of the processes analysed and the companies concerned, complete with the responsibilities and timing for each activity. Their implementation by the agreed deadline is considered essential and not postponable by the Board of Statutory Auditors.

In January 2020 the Board of Statutory Auditors also examined the proposal for the 2020 Audit Plan prepared by the Internal Audit Function starting from the areas to be audited in 2020 as per the three-year calendar prepared in 2019, supplemented by the assessments shared with Acea's Directors and Managing Director and the areas to be given special attention as designated by the control bodies and second-level supervisors.

Having consulted with the Board of Statutory Auditors, the Control and Risk Committee expressed its favourable opinion on the proposed Audit Plan for 2020 prepared by the Internal Audit manager.

The Board of Statutory Auditors also noted that once the new risk map is available, the audited areas in the proposed 2020 risk-based audit plan may be reconsidered in light of the new analysis, and if necessary a revised 2020 Audit Plan may be produced.

The Board of Statutory Auditors also noted that in its periodic report for 2019 on the activities of the Internal Audit Function it expressed an opinion on the overall adequacy of the internal control and risk management system, an opinion rendered on the basis of the activities carried out during the period and taking into account the projects launched by the Company during 2019, aimed at strengthening the structural components of the Internal Control and Risk Management System and incorporating these elements into the more general organisational and corporate governance structure.

In fact, taking into account the Company's concrete launch in 2019 of the projects aimed at strengthening the structural components of the Internal Control and Risk Management System, and the integration of these elements into the more general organisational and corporate governance structures, in addition to the activities carried out by the Internal Audit Function (audits performed; follow-up on the audit findings and monitoring of second-level control measures), the internal control and risk management system is considered by the Internal Audit Function and by the Control and Risk Committee to be adequate and operational as a whole, although there are areas for improvement on design aspects that have already been identified by management and are being resolved.

This assessment therefore takes into account not only the individual areas of improvement identified during the audits performed, but also the projects launched by the Company in 2019, aimed both at strengthening the structural components of the Internal Control and Risk Management System and at incorporating these elements into the more general organisational and corporate governance structures.

In particular, the Company launched a long-term project to define a comprehensive Control Model for the Acea Group, with the aim of strengthening and consolidating a solid risk control and governance culture.

As part of this project, the Company:

- Revised the Guidelines of the Internal Control and Risk Management System, which are considered a fundamental first step in the definition of the Acea Group's Control Model. The purpose of the Guidelines is to (a) identify roles and responsibilities of the SCIGR actors and governance structures, (b) define the architecture of the SCIGR and (c) define the matrix of control flows between the different actors and governance structures.
- Assigned specific responsibilities regarding the design, implementation and updating of the Group's Governance model and related processes to the Risk & Compliance Function in order to standardise company processes and allow the achievement of the performance targets, in compliance with current regulations and in accordance with market best practices. The Function offers support to the relevant structures in process analysis and optimisation initiatives. The goal of the Structure, in addition to the definition of a governance model for the Acea Group – including the alignment of the scopes of the control and governance models – is an overall standardisation of business processes, to be correlated to the related risks consistent with the organisational structure. The project will also make it possible to integrate the control flows currently defined within the SCIGR Guidelines with the governance flows.

- Further developed the ERM Programme based on the COSO framework "Enterprise Risk Management (ERM) - Integrating with Strategy and Performance", which is designed to represent the type and severity of the main risk scenarios – including sustainability scenarios – in terms of probability and economic-financial and/or reputational impacts that could jeopardise the achievement of the Group's strategic and business objectives, as well as address the resulting additional mitigation actions.

With this in mind, sharing and valuing the initiatives launched by management, the Board of Statutory Auditors recommends progressive development in accordance with the work plan during 2020, it being a fundamental element of the needed strengthening of the internal control system and risk management culture within the Group.

In fact, the Board of Statutory Auditors considers the completion of the development of the Group's overall "internal control model" to be very important, with the consequent integration of the SCIGR's Guidelines with the ongoing projects on the Group's organisational structure and risk management system, on the definition of a unique taxonomy of processes and procedures correlated with risks and consistent overall with the responsibilities envisaged by the company organisation, as well as with the various specialised control mechanisms envisaged under the various regulations applicable to the company's business (262, privacy, 231, antitrust, ISO, safety at work, etc.).

Thus defining an overall paradigm of reference for the expression of the judgements of the Internal Audit Function. An "internal control model" that also allows for an overall alignment of the scopes of the various specialised control bodies and related activities, if necessary to be carried out through integrated governance systems of controls (single control room).

Particularly important in this context is the ongoing introduction of innovative detection audit methodologies aimed at allowing the mass auditing of data of some business processes and the identification of specific key control indicators, useful for the detection of errors, deficiencies in the internal control system, misalignments between operating practices and procedures in place, potential inefficiencies or anomalous process trends, misalignments in information systems and incorrect behaviour by users. In fact this would allow for a mass verification of transactional data

and would allow the concentration of internal auditing on checking the management of anomalies by first- and second-level control bodies.

As part of its supervisory activities, the Board of Statutory Auditors also considered the current effectiveness of the Acea Group's quality, environmental, safety and energy management system.

During 2019, the Integrated Certification Systems Unit of Acea SpA performed audits on all processes included in the four management systems, as defined by the annual calendar of internal audits.

Legislative compliance checks were carried out both at the various operating companies of the Group (Acea Ato 2; Acea Ato 5; areti; Acea Elabori; Crea Gestioni; Aquaser, Ecogena, Acea Produzione) and at the suppliers of Acea SpA services.

During these audits no particular critical issues were brought to the attention of the Board of Statutory Auditors, and the integrated quality, environment, safety and energy management system is assessed by the relevant function of the parent company as having been implemented, kept under control and adequate.

Similarly, the Board of Statutory Auditors supervised the issues related to safety at work in the Acea Group, in particular further assessing the role played by the parent company in Safety Governance (including through the adoption of safety management software, which the Board of Statutory Auditors recommends be promptly implemented), the trend of the accident indices and the existing cross-cutting initiatives/projects aimed at organisational well-being, the protection of diversity and the protection of disabilities. One of these is the launch of a project in partnership with INAIL in 2020 aimed at reducing and eliminating accidents.

During the periodic exchange of information with the Board of Statutory Auditors, the various company departments did not identify any critical issues to be included in this report.

The Board of Statutory Auditors particularly appreciated the management's handling of the current emergency crisis caused by the coronavirus, noting that the Group has taken prompt action, in some cases even prior to the relevant regulatory measures, to ensure the most complete protection of the health of its employees and the communities the Group operates in.

The Board of Statutory Auditors also found that in its internal processes the Company implements the measures envisaged by the Privacy Authority and acts in substantial compliance with the provisions of EU Regulation no. 679 of 27 April 2016 ("GDPR"), of Italian Legislative Decree no. 196 of 30 June 2003, as amended by Italian Legislative Decree no. 101 of 10 August 2018 and other applicable regulations on the protection of personal data.

The Board of Statutory Auditors noted that in the course of periodic discussions and in reports to the Board of Directors, the Data Protection Officer did not find any critical issues to be included in this report. However, it should be noted that the analyses carried out give a picture of a privacy governance model that, while implemented in the essential parts, is yet to be consolidated in certain areas, some of which have already been considered for optimisation and which the Board of Statutory Auditors believes should be fully implemented in 2020.

In fact, the Board of Statutory Auditors believes that the protection of personal data held by the Acea Group is a founding value of the corporate identity, and as such it must necessarily become a constituent element of the management of the company's processes and procedures at all levels, with a widespread awareness among employees of the importance of what is needed for this purpose.

The Board of Statutory Auditors has also favourably noted management's attention to compliance, including through the establishment of a dedicated business unit, and recommends that this compliance unit continue its efforts, encouraging the growth of the culture of compliance and controls within the Group.

In this context, an antitrust compliance programme was implemented as a first step of a necessarily broader industrial compliance initiative, characterised by a first phase of risk assessment followed by the mapping of sensitive areas, the analysis of business processes at risk, the inclusion of specific control points in individual company procedures, and the boosting of risk owners' awareness of the potential risks associated with the violation of regulations through training sessions, defining internal regulatory documents for the prevention of the risks of violations of antitrust and consumer protection regulations (antitrust and consumer protection compliance manual, organisational regulation antitrust compliance and unfair business practices).

In this regard, the Board of Statutory Auditors recommends that all activities necessary to ensure that the programme remains effective over time are guaranteed.

The Board of Statutory Auditors has also favourably noted the establishment of an Ethics Officer with the aim of monitoring compliance with the values of transparency, legality, fairness and ethical integrity in relations with employees, suppliers, customers and all stakeholders, as well as the adoption of an open, transparent and confidential system that allows anyone to contact this Ethics Officer and report alleged violations of the Code of Ethics ("Whistleblowing" system), the law, the internal rules governing the Group's activities and any conduct in violation of the principles of conduct that the Acea Group has given itself.

The Board of Statutory Auditors hopes that the Acea Group will continue along the path agreed to so that compliance can become an integral part of the company's mission, protecting the business from potential risks of non-compliance according to a logic of

preventive intervention and a principle of proximity of compliance structures to operational structures.

The Board of Statutory Auditors has continuously provided information to the Supervisory Board. In this regard, the Board acknowledges that with regard to the provisions of Italian Legislative Decree no. 231/2001, the Company recently updated its "Organisation, Management and Control Model pursuant to Italian Legislative Decree no. 231/01", the implementation of which was monitored by the Supervisory Body, which, in its periodic report to the Board of Directors, did not find any significant critical issues to be included in this report.

The updating of the model involved a re-execution of the risk assessment, with a related reassessment of the adequacy of the existing controls. It is understood that in the near future this model will have to be updated again by the Company as regulations are updated.

In the opinion of the Board of Statutory Auditors, it is important that in 2020 the Company fully implement the recommendations made by the Supervisory Board with regard to certain areas of improvement inherent in the procurement governance processes.

In addition, it is considered essential to complete the ongoing activities aimed on the one hand at the complete implementation of immediate information flows to the Supervisory Body in the presence of significant events, and on the other hand at better documentation of the improvement initiatives agreed to in the face of any problems encountered (remedial plan, related operating procedures, definition of timing and responsibilities).

B. Risk Management System

Since 2018, Acea SpA has put in place a system aimed at allowing the main risks relating to the company and its subsidiaries to be correctly identified, as well as adequately measured, managed and monitored, with the aim of determining the degree of compatibility of these risks with a management of the company consistent with its strategic objectives.

With this in mind, the company's organisational structure has expanded to include a Risk & Compliance Function that has the mission of "identifying, describing and measuring the main risk factors that may compromise the achievement of the Group's strategic objectives, supporting management in defining action plans aimed at bringing risk back to a level deemed acceptable and monitoring their implementation".

At its meeting of 22 January 2020, the Board of Directors approved a revision of the guidelines of the Acea Group's internal control and risk management system in accordance with the guiding principles and application criteria of the Corporate Governance Code. Among other things, these guidelines define the principles that the Group intends to

follow in the process of identifying, measuring, managing and monitoring the main business risks.

With the support of a leading consultant, in 2019 the Company therefore developed an Enterprise Risk Management programme with the aim of further improving the tools and methods used to support the process of identifying and measuring business risks.

The project's objectives are:

- A strengthening of the areas related to risk governance (review of the SCIGR guidelines in the ERM area, definition of a group risk policy, definition of the organisational provisions of the ERM Function and the risk ownership matrix) in parallel with an overall project to review processes and procedures.
- The assessment, review and development of current risk analysis tools and methods with the introduction of new quantitative methods and reporting models to top management.
- The development and implementation of staff training plans.

The Board of Statutory Auditors recommends the prompt, on-time completion of the activities in progress.

This project has also enabled the relevant ERM Function to carry out a complex Group risk assessment process, identifying the main business risks (including those related to ESG issues) the Acea Group is exposed to, the current methods of managing them and the further mitigation actions proposed by management.

At the meeting held on 9 March 2020 the Board of Directors analysed the risk assessment proposed by the ERM Function, considering the risks identified according to their nature and level of severity net of further mitigation actions illustrated by the Managing Director, as the director responsible for managing the internal control and risk governance system, both at the meeting of the Control and Risk Committee held on 4 March 2020 and at the subsequent Board meeting, compatible with a management of the company consistent with the Group's strategic objectives as outlined in the 2019-2022 business plan.

While appreciating the efforts made, the Board of Statutory Auditors recommended consolidating the management and control of Group risk indicators and related activities like monitoring and reporting (Dashboard), hoping for an increasing alignment with best practices in terms of risk governance, risk appetite and risk culture, as well as an overall integration of ERM with the processes of strategic option assessment, planning and budgeting, current business management and

execution of the defined strategies in order to define decision-making processes in the Board of Directors based on risk considerations - expected return (M&A at risk).

From a more general point of view, the Acea Group is significantly involved in the management of regulated infrastructure of strategic importance for the provision of essential public services to the communities it operates in. Over time, the Group has developed significant project initiatives aimed at reducing the risk inherent in these strategic infrastructures (for example, activities aimed at increasing the resilience of electrical grids through the creation of nodal systems and alternative remote control methods, as well as the development of advanced water pollution control systems for aqueducts). It has also developed specific skills in water crisis management. In the opinion of the Board of Statutory Auditors, it is now necessary that the Public Authorities from which the Acea Group has requested authorisation for the development of new strategic infrastructures of extreme importance for the operational continuity of essential public services (for example, the design of the Peschiera aqueduct as well as the important plan for the modernisation of the public lighting network presented to Roma Capitale) promptly complete the relevant preliminary processes in order to allow the concessionaire to fully exploit its technical and operational potential at the service of the communities involved.

C. Organisational Structure

The Board of Statutory Auditors examined the documentation concerning the overall organisational structure of Acea SpA.

The Board of Statutory Auditors therefore noted the existence of:

- i. An organisational chart and related company documentation detailing the roles and responsibilities of the organisational structures.
- ii. A structured system of delegations exercised in accordance with the roles and powers assigned to each of the functions/committees involved.
- iii. Corporate regulations for the exercise of governance by Acea SpA as part of its functions of guidance, coordination and control of the Group's legal entities.
- iv. Company regulations for the performance of the activities of each managerial function.

The Board of Statutory Auditors stressed the importance of prompt completion of ongoing activities for the overall revision of the system of governance of internal rules. An activity aimed at regulating the drafting, approval and management of the internal rules governing the company's activities and processes in a more effective and uniform manner. An objective to be achieved through a clear procedural management model in the hierarchy of sources and consequent responsibilities. Ensuring on the one hand that the internal rules are consistent with the risk and control system

through the precise verification of the effectiveness and efficiency of the control mechanisms inherent in the various control models envisaged by the corporate governance, and on the other hand a precise, exhaustive information flow of controls and governance between the parties involved.

The Board of Statutory Auditors considers very important the ongoing project aimed at achieving a uniformity of the taxonomy of processes among the various company functions, as well as a single procedure for the analysis of critical aspects of the processes themselves.

This is a central issue that not only involves the internal control and risk management system, but more generally also the Acea Group's organisational model and the way it exercises the parent company's management and coordination power/duty, with the aim of creating a governance model aimed at ensuring greater operational autonomy for its subsidiaries and greater focus on the parent company's management, coordination and control.

With this in mind, in the context of the activities carried out to further strengthen corporate governance and the internal control and risk management system, after approving the revision of the guidelines of the internal control and risk management system, as part of the broader path also aimed at strengthening the risk management system and the overall structure of business processes and procedures, the Board of Directors has begun to reflect on possible guidelines for the Acea Group's governance model, analysing a hypothesis of a group orientation aimed at ensuring uniform organisational and management rules for the most relevant aspects within the Acea Group in order to fully regulate the exercise of its management and coordination by the parent company while respecting the corporate autonomy of the subsidiaries, also in order to ensure the timely fulfilment of the obligations, in particular reporting, imposed on the parent company and its directors by applicable regulations. To this end, the Board of Statutory Auditors recommends that the Board of Directors appointed by the next Shareholders' Meeting implement all the consequent decisions necessary to implement the contents of the guidelines examined by the Board in order to put in place an effective system of Control Governance both from an organisational and corporate governance standpoint. In fact, it is necessary to promptly proceed with a better clarification of the parent company's role of strategic guidance and governance in compliance with the principles of proper corporate management and entrepreneurial autonomy of directed and coordinated companies, including through a more complete definition of the Group's organisational architecture that better regulates the relationships between the bodies and organisational functions of the parent company and those of directed and coordinated companies, as well as the related information flows, including through a clear definition of the scope of governance and services carried out by the parent company. With regard to the services provided by the parent company to the subsidiaries, the Board of Statutory Auditors recommends the timely completion of the project aimed at updating the structure and contents of the contracts governing inter-company relations among the companies of the Acea Group, scheduled for 2020.

D. Conclusions

In light of the supervisory activities carried out in accordance with the procedures summarised above, for the matters within its remit the Board of Statutory Auditors therefore welcomes the numerous initiatives agreed to by management, as supplemented where necessary by further activities still in the process of being defined, in order to ensure the overall adequacy and operation of the internal control system, the management of the risks and the organisational structure.

Indeed these initiatives need to be completed as they are intended to resolve situations related to the aforementioned areas of improvement.

11. Remuneration policies

The Board of Statutory Auditors noted that at its meeting of 9 March 2020 the Board of Directors approved the report on the remuneration policy and compensation paid pursuant to art. 123-ter of Italian Legislative Decree no. 58/98 (as amended by Italian Legislative Decree no. 49/2019 implementing EU Directive 2017/828 - SHRD II - and art. 84-quater of the so called Regulations for Issuers). This report was also prepared having regard to the contents of art. 6 of the Corporate Governance Code for Listed Companies.

The Board of Statutory Auditors notes that the EU Directive provides for the involvement of shareholders in the definition of remuneration policies for directors, including through the expression of a binding vote on the section of the report that illustrates these policies and that describes the various components of fixed and variable compensation, including all other monetary and non-monetary bonuses and benefits that may be awarded to directors and executives with strategic responsibilities (those responsible for the Water, Commercial and Trading, Environment, Energy Infrastructure segments and those responsible for Administration, Finance and Control and Corporate Affairs and Services), at least for the following year.

In particular, the Board of Statutory Auditors points out that in the document submitted to the Shareholders' Meeting the Board of Directors intended to create a greater link between the short-term management incentive plan and sustainability objectives, an objective achieved by increasing the percentage weight of indicators linked to ESG factors considered material for the Acea Group as objectives of the management incentive system.

Similar considerations have been made with regard to possible changes to be made to the long-term incentive plan which expires at the end of 2020, in relation to which the Board of Statutory Auditors hopes for a prompt analysis at the time of renewal of the Board of Directors and timely consequent Board resolution in light of the guidance issued by the outgoing Board of Directors.

The report is divided into two separate sections. The first section details the Company's policy on the remuneration of directors, including those with executive or special duties, executives with strategic responsibilities and the Board of Statutory Auditors applicable for the year 2020.

The second section, by name for members of the management and control bodies, and in aggregate for executives with strategic responsibilities, provides a representation of each of the items that make up remuneration, including the treatments envisaged in the event of termination of office or termination of employment, giving an account of the remuneration paid by the Company for the year 2019 for any reason or in any form.

The Board of Statutory Auditors also noted that the Appointments and Remuneration Committee examined the results of the succession planning process aimed at meeting organisational needs, both in emergency and scheduled, also by creating career paths capable of developing people's ability to manage complex and changing situations and activities in an autonomous and proactive manner, paths that are considered by the Board of Statutory Auditors to be of the utmost importance given the function of ensuring the sustainability of the Group's top management culture over time.

From this point of view, the Board of Statutory Auditors notes how the recent health emergency related to the coronavirus and the related regulatory measures aimed at containing the spread of the epidemic have led to significant changes in the way in which work is carried out in companies, with an important increase in teleworking and the implementation of different ways of sharing experiences, information and decision making.

The Board of Statutory Auditors believes that these changes forced by the health emergency may also provide an opportunity to encourage a partial rethinking of the ways human resources are managed and therefore of the company's needs, with the related necessity to update both the organisational and management priorities (e.g. a strengthening of the company's information systems, the way they are connected, the need for operational continuity and the need for IT security of widespread systems), as well as the methods of human resources management, starting from the dissemination and maintenance of a uniform and shared corporate culture, where the company should over time assume more and more widespread neural forms of management of its activities and staff.

In light of the provisions of the Supervisory Authorities regarding remuneration and incentive systems, the Board of Statutory Auditors has therefore verified the adequacy and compliance with the regulatory framework of the remuneration and incentive policies and practices adopted by Acea SpA.

12. Corporate Information System

The Board of Statutory Auditors also paid particular attention to the various initiatives implemented by the Acea Group with regard to the development of the corporate information system and the protection of business continuity, with a particular focus on cybersecurity issues.

The security management model prepared by Acea provides for the adoption of a centralised governance of information security, managed in accordance with the national framework for cybersecurity and data protection.

From this point of view, the company's planning envisages an analysis and revision of the organisational model for the management of information security while maintaining respect for the autonomy and responsibilities of the various group entities, and as far as processes are concerned an analysis and revision of those that support the cybersecurity management model of Acea and the Group. It is also planned to identify and design technological components for the constant monitoring and management of the main security countermeasures on the network and system infrastructure.

In the opinion of the Board of Statutory Auditors, the resilience of the information system is of central importance. The Board of Statutory Auditors has therefore carefully monitored the assessment of infrastructure and applications, those relating to operational continuity and disaster recovery, and recommends that the actions provided for in the ICT master plan – which it will carefully follow as it develops – be carried out on time with all the necessary resources allocated to the project.

The Board of Statutory Auditors considers critical the current activities to ensure the introduction, development and management of a business intelligence model capable of monitoring company performance through the identification of KPIs (Key Performance Indicators), enabling all Group Departments, Functions and Companies to perform data analysis using technologies and methods based on big data, analytics and artificial intelligence.

From this point of view, it is important to introduce a data governance model aimed at guaranteeing both data quality and any in-depth analysis that may be necessary.

These business intelligence and analytics systems have allowed the creation of a first release of an Executive Dashboard consisting of a series of reports and KPIs to allow data-driven decision making, which the Board of Statutory Auditors recommends will soon constitute a complete Board report to allow an immediate understanding not only of the economic, financial and equity performance of the Acea Group, but also of its operating performance in the main industrial areas that make up its business.

The Acea Group has launched a series of innovative initiatives in business management control activities (operational key performance indicators dashboard), internal control system monitoring (detection audit of the Internal Audit Function, with possible related development of key control indicators), risk management activities

(risk assessment with possible development of key risk indicators) and activities related to sustainability issues (ESG indicators).

With the completion and overall integration of the various projects under way, the development of a comprehensive dashboard for the Company's Board of Directors is therefore possible, providing a holistic view of the Group's business activities through the representation of economic, financial and equity indicators, key operational performance indicators, key control indicators, key risk indicators and ESG indicators.

13. Further activities of the Board of Statutory Auditors and disclosure required by Consob

As required by art. 149 of the TUF, in the performance of its duties the Board of Statutory Auditors:

- Over saw the processes of effective implementation of the corporate governance regulations provided under the codes of conduct drawn up by regulated market management or by category associations with which Acea SpA declares its compliance. Acea SpA adheres to the Corporate Governance Code promoted by Borsa Italiana SpA, and pursuant to art. 123-bis of the TUF and art. 144-decies of the Issuers' Regulations has prepared an annual "Report on Corporate Governance and Ownership Structure" providing the following information:
 1. The corporate governance practices actually applied.
 2. The main characteristics of its risk management and internal control systems.
 3. The mechanisms for the organisation of the Shareholders' Meeting, its main powers, the rights of shareholders and the manner in which they are exercised.
 4. The composition and operations of the management and control bodies and their committees, as well as other information required by art. 123-bis of the TUF.
- It has taken note that pursuant to letter d-bis of art. 123-bis, paragraph 2 of Italian Legislative Decree no. 58/98, the Board of Directors of Acea SpA expressed its opinion on the policies to be applied with respect to the composition of the administrative, management and control bodies pertaining to aspects like age, gender composition or training and professional career. In this regard, at its meeting of 9 March 2020 the Board of Directors approved a diversity policy that represents the diversified characteristics of the members of the management and control bodies considered necessary for an optimal composition of these bodies. Based on this policy, and in compliance with the recommendations of the current Corporate Governance Code of Listed Companies, the Board of Directors has also developed its own orientation on the future size and composition of the board of directors in view of the next Shareholders' Meeting. Furthermore, in line with the principles expressed in the Code of Ethics, the Company has promoted a culture of equal opportunities and

diversity management/enhancement through the adoption of a Charter for Diversity Management.

- It monitored the adequacy of the instructions given to subsidiaries pursuant to art. 114, paragraph 2 of the TUF. While appreciating the efforts made, the Board of Statutory Auditors nevertheless recommended to the relevant corporate functions of the parent company to direct the subsidiaries' boards of directors to fully approve and adopt all Group policies. To this end, the Board of Statutory Auditors recommended that the differences in interpretation and application made by the investee companies be carefully monitored, also calling for the completion of internal regulations through the issue of specific operating instructions.
- It exchanged information with the Boards of Statutory Auditors of directly controlled companies as required by art. 151, paragraph 2, of the TUF. In order to allow for this exchange of information, a questionnaire was sent to the control bodies of the subsidiaries concerning the supervisory activities carried out by them during 2019 and the performance of the company's business. From the analysis of these questionnaires, which were completed and returned by the control bodies of the investee companies, no reports were made or facts emerged worthy of note in this report.

The Board of Statutory Auditors received communications and/or reports that also qualified as such pursuant to art. 2408 of the Italian Civil Code. Specifically: the Board of Auditors received:

- A communication from a shareholder that noted an omission in the information relating to the list of corporate offices held by a director contained in the 2019 Corporate Governance and Ownership Structure Report. Through the relevant company structures, the Board of Statutory Auditors ascertained that this was a mere transcription error of an office disclosed in such a way as to be considered absolutely known and that the total number of corporate offices held by the director in question was fully within the statutory limits of the maximum number of corporate offices held by a director of Acea SpA. Lastly, the Board of Statutory Auditors ascertained that the Report on Corporate Governance and Ownership Structure 2020 contains the information in question.

During the course of the financial year, the Board of Statutory Auditors issued opinions and expressed the observations that current legislation assigns to its remit, including the following:

- (a) An opinion on the remuneration of the Managing Director.
- (b) An opinion on the appointment by co-optation of a new director. On 11 December 2019 the Board of Directors of Acea took note of the resignation of Fabrice Rossignol from the position of Director for professional reasons. Based on the guidance of the Appointments and Remuneration Committee and with the favourable opinion of the Board of Statutory

Auditors, the Board of Directors co-opted Diane Galbe, a new director to replace the resigning director pursuant to art. 2386 of the Italian Civil Code and art. 15, paragraph 3 of the by-laws, as the first of the unelected candidates on the same list.

In addition, the Board of Statutory Auditors reports:

- To have noted that the Board of Directors has positively assessed the adequacy of its size, composition and operation, also in light of the results of the self-assessment that was performed with the support of the consultant Eric Salmon & Partners, having met the required independence requirements.
- That, aside from board meetings, it attended off-site meetings and induction sessions. Given the complexity of the agenda of Board meetings, the Board of Statutory Auditors called for reflection on the best ways to simplify and rationalise an information flow that is sometimes too voluminous and unfocused and to improve coordination among the various bodies in the performance of their respective functions and responsibilities, with a view to optimising increasingly integrated governance, aimed at avoiding duplication of analysis and repetition of presentations and hoping for the necessary full focus of the Board on the strategic dimension.

With regard to vertical governance (Board/Management), the issues that are important are those relating to the content of the information to be submitted to the Board (requiring an effort aimed at selecting the information deemed relevant because it relates to strategic choices and/or critical issues to be resolved, in order to make the documentation submitted for Board analysis neither too voluminous nor too dispersive), thus supporting the Chairman of the Board of Directors in facilitating virtuous dynamics of examination and discussion within the Board itself.

Conversely, in horizontal governance the focus is placed on the advisability of better regulating information flows among board committees and the board of directors, which must necessarily be based on the summary role of the committee chairmen in order to avoid redundancies and/or duplication of presentations and briefs. The complexity of the company's activities and the problems associated with them together with the limited time of the Directors require that they be assisted in focusing their attention on the relevant issues of assessment and strategic direction during board meetings so as to allow for an appropriate and complete development of the board's debate.

- To have verified that its members meet the same independence requirements as those required of Directors in accordance with the recommendations of the Borsa Italiana Corporate Governance Code.
- To have found the correct application of the criteria and procedures adopted by the Board of Directors to assess the independence of its members on an annual basis. In this regard, the Board of Statutory Auditors hopes that, in application of the recommendation of the Italian Committee for Corporate Governance, in the near future the Board of Directors will define ahead of time the quantitative and qualitative criteria to be adopted for the evaluation of the significance of the relationships that could be found for the correct application of the independence criteria. It also hopes that the Board of Directors will adopt the board resolution on the maximum number of appointments in listed companies or significant companies compatible with the office in a corporate body of the Acea Group, in force since 2011, in accordance with the most restrictive approaches taken by the best practices of reference, while defining the qualitative and quantitative characteristics inherent in the definition of "significant company".
- That with regard to the provisions of art. 36 of the Market Regulation approved by Consob with resolution 16191/2007 and subsequent amendments and additions it has verified that the subsidiaries established and regulated by the law of countries outside the European Union regularly provide the economic and financial data necessary for the preparation of the consolidated financial statements.

No separate meeting of the independent directors was held during the year, as they considered it unnecessary in view of the quality of the information received from the delegated bodies and their active participation in the Board of Directors and in the Board Committees.

At present, the requirements of the Corporate Governance Code for Listed Companies for the establishment of the position of lead independent director are not met, given that the Chairman of the Board of Directors does not hold the position of Managing Director and does not have a controlling interest in the company.

As a result of the supervisory activities carried out by the Board of Statutory Auditors, no reprehensible facts, omissions or irregularities have emerged that should be included in this Report.

The Board of Statutory Auditors does not deem it necessary to exercise the right to make proposals to the Shareholders' Meeting pursuant to art. 153, paragraph 2, of the TUF.

Conclusions

In view of all the above, considering the content of the reports prepared by the external auditor, having taken note of the declarations issued jointly by the Managing Director and the Financial Reporting Officer, to the extent of its remit the Board of Statutory Auditors has not found any reasons preventing the approval of the proposal for the individual financial statements at 31 December 2019 and the dividend distribution formulated by the Board of Directors.

The Board of Statutory Auditors points out that with the approval of the Company's financial statements as at 31 December 2019 the term of office of the current Board of Directors expires, and that therefore it is necessary for the Shareholders' Meeting to resolve on the appointment of the new Board of Directors, taking all necessary and appropriate resolutions in this regard.

To this end, it hopes that shareholders will take due account of the guidelines on the quantitative and qualitative composition of the board expressed by the outgoing Board of Directors.

Rome, 16 April 2020

For the Board of

Statutory Auditors

The Chairman
Maurizio Lauri

The Standing
Auditor Pina Murè

The Standing Auditor
Maria Francesca Talamonti



**INDEPENDENT AUDITOR'S REPORT
IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE
NO. 39 OF 27 JANUARY 2010 AND ARTICLE 10 OF REGULATION
(EU) NO. 537/2014**

ACEA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019



Independent auditor's report

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

To the shareholders of Acea SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Acea SpA (the Company), which comprise the income statement, statement of comprehensive income, statement of financial position as of 31 December 2019, statement of changes in equity, cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

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 this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw your attention to paragraph "Trend of operating segments – Water operating segment" of the report on operations which describes:

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Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Cimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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- The uncertainties regarding the subsidiary Acea Ato5 SpA linked to the ongoing tax litigation and the complex in and out of court legal dispute with the Area Authority which is mainly related to the termination of the concession agreement, the approval of the 2016-2019 tariffs, the contractual penalties charged to the company for alleged non-fulfilments, the recognition of receivables related to higher operating costs incurred in the 2003-2005 period (as per the settlement agreement of 27 February 2007) and the determination of the concession fees;
- The complex regulatory measures, with particular reference to what lies behind the approval process of water tariffs.

We also draw attention to paragraphs “Information on Related Parties” and “Receivables from Parent Companies – Roma Capitale” in the notes to the financial statements, as well as to paragraph “Relations with Roma Capitale” included in section “Summary of Results” of the report on operations, where the directors describe the existing commercial relations with the Municipality of Rome and related net receivable balance at 31 December 2019.

Our opinion is not qualified in respect of these matters.

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.

Key Audit Matters

Auditing procedures performed in response to key audit matters

Recoverability of the value of investments in subsidiaries and associates

Note 15 to the financial statements “Investments in subsidiaries and associates”

The Company recognised in the financial statements as of 31 December 2019 investments in subsidiaries and associates for an amount equal to Euro 1,814 million.

Annually, the Company, on the basis of its internal procedures, verifies the presence, if any, of impairment losses of investments in subsidiaries and associates in accordance with IAS 36 (impairment test), comparing their book value with their estimated recoverable amount measured through the Discounted Cash Flow method. Such verification is carried out on the

We addressed our audit procedures in order to evaluate if the method to estimate the recoverable amount used by the Company was consistent with what envisaged by IAS 36 and by the evaluation practice, verifying i) the appropriateness of the types of cash flows used and their consistency with the 2019-2022 Industrial Plan of the Group approved by the Board of Directors on 1 April 2019 and updated to take account of the events occurred during FY 2019 and ii) the mathematical accuracy of the quantification of the recoverable amount.



main investments apart from the presence of any impairment indicators emerged during the year.

As part of our audit activities, we paid particular attention to the risk that there could be impairment losses in the abovesaid investments, inasmuch as the process for the estimate of their recoverable amount is particularly complex and based on valuation assumptions affected by future economic, financial and market conditions which are hard to forecast.

In particular, our audit activities were focused on the verification of the reasonableness of the main assumptions underlying the expected cash flows and the discounting rates used to perform the impairment test (also through a comparison with the budget data deriving from external information sources, if available).

We compared the forecasts of the prior years with the corresponding final data and finally we verified the sensitivity analyses performed by the Company and carried out independent sensitivity analyses.

As part of our audit activities, we availed ourselves, where necessary, of the support of the PwC network experts in valuations.

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, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the 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 the financial statements.

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

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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;
- We 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 communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

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

On 27 April 2017, the shareholders of Acea SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.



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

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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Acea SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Acea SpA as of 31 December 2019, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Acea SpA as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Acea SpA as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Rome, 16 April 2020

PricewaterhouseCoopers SpA

Signed by

Massimo Rota
(Partner)

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



Certification of separate financial statements in accordance with art.154-bis of Legislative Decree 58/98

(Translation from the original Italian text)

1. The undersigned, Stefano Donnarumma, as Chief Executive Officer, and Giuseppe Gola, as Executive Responsible for Financial Reporting of the company ACEA S.p.A., taking also account of provisions envisaged by Art.154-bis, paragraphs 3 and 4, of the Legislative Decree n°58 of 24 February 1998, hereby certify:

- the consistency to the business characteristics and
- the effective application

of the administrative and accounting procedures for preparing the separate financial statements at 31 December 2019.

2. To this purpose, no significant issues were recorded.

3. It is also certified that:

3.1 the separate financial statements:

- a) were drawn up in compliance the applicable international accounting standards recognised in European Community in accordance with EC regulation 1606/2002 of the European Parliament and the Council, of 19 July 2002,
- b) are consistent with the underlying accounting books and records,
- c) provide a true and correct view of the operating results and financial position of the issuer,

3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 16 April 2020

signed by: Stefano Donnarumma, The CEO

signed by: Giuseppe Gola, The Executive Responsible for Financial Reporting

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





aceea

ACEA BUSINESS PLAN 2019-2022
2 Aprile 2019

CONSOLIDATED FINANCIAL STATEMENTS

aceea

FORM AND STRUCTURE

GENERAL INFORMATION

The Consolidated Financial Statements at 31 December 2019 of the Acea Group were approved by the Board of Directors on 9 March 2020, which authorised their publication. The Parent Company, Acea SpA is an Italian joint-stock company, with its registered office in Rome, at Piazzale Ostiense 2 and whose shares are traded on the Milan Stock Exchange. The Acea Group's principal operating segments are described in the Report on Operations.

COMPLIANCE WITH IAS/IFRS

These Condensed Financial Statements have been prepared in compliance with the international accounting standards in effect on the date of the financial statements, approved by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure set forth in art. 6 of the regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and pursuant to art. 9 of Italian Legislative Decree 38/2005.

The international accounting standards include the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Standard Interpretations Committee (SIC), collectively the **"IFRS"**.

BASIS OF PRESENTATION

The Consolidated Financial Statements consist of the consolidated statement of financial position, consolidated income statement, statement of consolidated comprehensive income, consolidated statement of cash flows and the statement of changes in consolidated shareholders' equity. The Report also includes notes prepared under the IAS/IFRS currently in effect.

The Income Statement is classified according to the nature of the costs, the items of the Statement of Financial Position according to the criterion of liquidity, with the items classified as current and non-current, while the Statement of Cash flows is presented using the indirect method.

The Consolidated Financial Statements are presented in Euros and all amounts are rounded off to the nearest thousand Euros unless otherwise indicated.

The figures in these Consolidated Financial Statements are comparable with the figures for the previous period.

USE OF ESTIMATES AND ASSUMPTIONS

Drafting of the Consolidated Financial Statements, in application of the IFRS, requires the making of estimates and assumptions that affect the values of revenues, costs, assets and liabilities in the financial statements and information on potential assets and liabilities reference date. The main sources of uncertainty that could have an impact on the evaluation processes are also considered in making these estimates.

The actual amounts may differ from such estimates. Estimates are used to determine some sales revenues, provisions for risks and charges, provisions for impairment of receivables and other provisions for depreciation, amortisation, valuation of derivatives, employee benefits and taxes. The estimates and assumptions are reviewed periodically and the effects of each change are immediately recorded in the financial statements.

The estimates also took into account assumptions based on the parameters and market and regulatory information available at the time the financial statements were drafted. Current facts and circumstances influencing the assumptions on future development and events may change due to the effect, for example, of changes in market trends or the applicable regulations that are beyond the control of the Company. These changes in assumptions are also reflected in the financial statements when they occur.

In addition, it should be noted that certain estimation processes, particularly the more complex such as the calculation of any impairment of non-current assets, are generally performed in full only when drafting the annual financial statements, unless there are signs of impairment that call for immediate impairment testing. For more information on the methods in question, please refer to the following paragraphs.

EFFECTS OF THE SEASONALITY OF TRANSACTIONS

For the type of business in which it operates, the Acea Group is not subject to significant seasonality. Some specific operating segments, however, can be affected by uneven trends that span an entire year.

CONSOLIDATION POLICIES, PROCEDURES AND SCOPE

CONSOLIDATION POLICIES

Subsidiaries

The scope of consolidation includes the Parent Company Acea SpA and the companies over which it directly or indirectly exercises control or when the Group is exposed or entitled to variable returns deriving from the relationship with the investee and has the capacity to influence its returns through the exercise of its power over the investee. Power is defined as the capacity to manage the significant activities of the subsidiary by virtue of existing substantial rights.

Subsidiaries are consolidated from the date on which control is effectively transferred to the Group and are de-consolidated from the date on which control is transferred out of the Group.

According to accounting standard IFRS 10, control is obtained when the Group is exposed or has the right to variable performance deriving from relations with the subsidiary and is able, through exercising power over the subsidiary, to influence its performance. Power is defined as the capacity to manage the significant activities of the subsidiary by virtue of existing substantial rights.

The existence of control does not depend exclusively on possession of the majority of the voting rights, but on the substantial rights of the investor over the investee. Consequently, the opinion of the management team is required to assess specific situations leading to substantial rights attributing to the Group the power to manage the significant activities of the subsidiary so as to influence its performance.

In order to assess the requirement of control, the management team analyses all facts and circumstances, including agreements with other investors, the rights deriving from other contracts and potential voting rights (call option, warrant, put option assigned to minority stakeholders, etc.). These other facts and circumstances may be particularly significant in the assessment, especially if the Group holds less than the majority of the voting rights or similar rights in the subsidiary.

The Group reviews the existence of control over a subsidiary when the facts and circumstances indicate that there has been a change in one or more elements considered in verifying its existence. Lastly, it must be noted that in assessing the existence of the control requirements, no situations of de facto control were encountered. Changes in the possession quota of equity investments in subsidiaries that do not imply the loss of control are recorded as capital transactions adjusting the quota attributable to the stakeholders of the Parent Company and that of third parties to reflect the change in the quota owned. The eventual difference between the amount received or paid and the corresponding fraction of the shareholders' equity acquired or sold is recorded directly in the consolidated shareholders' equity. When the Group loses control, any residual equity investment in the company previously controlled is re-measured at fair value (with counterpart in the income statement) on the date on which control is lost. Also, the quota of the OCI of the subsidiary over which control is lost is dealt with in the accounts as if the Group has directly disposed of the relevant assets or liabilities. Where there is loss of control of a consolidated company, the Consolidated Financial Statements include the results for the part of the reporting period in which the Acea Group had control.

Joint ventures

A joint venture is a contractual arrangement in which the Group and other parties jointly undertake a business activity, i.e. a contractually agreed sharing of control whereby the strategic, financial and operating policy decisions can only be adopted with unanimous consent of the parties sharing control. The Consolidated Financial Statements include the Group's share of the income and expenses of jointly controlled entities, accounted for using the equity method.

According to IFRS 11, a joint venture is an arrangement over which one or more parties have joint control. Joint control is held when unanimous consent or that of at least two of the parties to the arrangement is required for decisions concerning the significant activities of the joint venture. A joint agreement can either be a joint venture or a joint operation. A joint venture is a joint control arrangement in which the parties holding joint control have all the rights over the net assets of the arrangement. On the other hand, a joint operation is a joint control arrangement in which the parties holding joint control have rights to the assets and obligations for the liabilities in the arrangement. To determine the existence of joint control and the type of joint arrangement, the opinion of the management team is required, which must assess the rights and obligations deriving from the arrangement.

To this end, the management team considers the structure and legal form of the arrangements, the terms agreed between the parties in the contractual agreement and, if significant, other facts and circumstances. The Group reviews the existence of joint control when facts and circumstances indicate that there has been a change in one or more elements previously considered in verifying the existence of joint control and the type of joint control.

Associates

An associate is a company over which the Group exercises significant influence, but not control or joint control, through its power to participate in the financial and operating policy decisions of the associate. The Consolidated Financial Statements include the Group's share of the results of associates at Net equity, unless they are classified as held for sale, from the date it begins to exert significant influence until the date it ceases to exert such influence.

In determining the existence of significant influence, the opinion of the management team is required, which must assess all facts and circumstances.

The Group reviews the existence of significant influence when facts and circumstances indicate that there has been a change in one or more elements previously considered in verifying the existence of significant influence.

When the Group's share of an associate's losses exceeds the carrying amount of the investment, the interest is reduced to zero and any additional losses must be covered by provisions to the extent that the Group has legal or implicit loss cover obligations to the associate or in any event to make payments on its behalf. Any excess of the cost of the acquisition over the Group's interest in the fair value of the associate's identifiable assets, liabilities and contingent liabilities at the date of the acquisition is recognised as goodwill.

Goodwill is included in the carrying amount of the investment and is subject to impairment test together with the value of the investment.

CONSOLIDATION PROCEDURES

General procedure

The financial statements of the Group's subsidiaries, associates and joint ventures are prepared for the same accounting period and using the same accounting standards as those adopted by the Parent Company. Consolidation adjustments are made to align any dissimilar accounting policies applied.

All Intragroup balances and transactions, including any unrealised profits on Intragroup transactions, are eliminated in full. Unrealised losses are eliminated unless costs cannot be subsequently recovered. The carrying amount of investments in subsidiaries is eliminated against the corresponding share of the shareholders' equity of each subsidiary, including any adjustments to reflect fair values at the acquisition date. Any positive difference is treated as "goodwill", while any negative difference is recognized through profit or loss at the acquisition date.

The minority interest in the net assets of consolidated subsidiaries is shown separately from shareholders' equity attributable to the Group. This interest is calculated on the basis of the percentage interest held in the fair value of assets and liabilities recognised at the original date of acquisition and in any changes in shareholders' equity after that date. Losses attributable to the minority interest in excess of their portion of shareholders' equity are subsequently attributed to shareholders' equity attributable to the Group, unless the minority has a binding obligation to cover losses and is able to invest further in the company to cover the losses.

Business combinations

Acquisitions of subsidiaries are accounted for under the acquisition method. The cost of the acquisition is determined as the sum of the fair value, at the date of exchange, of the assets acquired, the liabilities incurred or acquired, and the financial instruments issued by the Group in exchange for control of the acquired company.

The identifiable assets, liabilities and contingent liabilities of the acquired company that meet the conditions for recognition under IFRS 3 are accounted for at fair value on the date of acquisition, with the exception of non-current assets (or disposal groups), which are classified as held for sale under IFRS 5 and accounted for at fair value net of costs to sell.

If the business combination is achieved in stages, the fair value of the investment previously held has to be re-measured and any resulting gain or loss is recognised in profit or loss.

The purchaser has to recognise any contingent consideration at fair value, on the date of acquisition. The change in fair value of the contingent consideration classified as asset or liability is recognised according to the provisions included in IFRS 9, in the income statement or among the other components of the comprehensive income statement.

The costs directly attributable to the acquisition are included in the income statement.

The purchase cost is allocated by recording the identifiable assets, liabilities and contingent liabilities of the acquisition at fair value on the date of acquisition. Any positive excess between the payment transferred, valued at fair value on the date of acquisition, and the amount of any minority interest, with respect to the net value of the amounts of the identifiable assets and liabilities of the acquisition valued at fair value is recorded as goodwill or, if negative, in the Income Statement.

For every business combination, the purchaser must value any minority stake in the acquired entity at fair value or in proportion to the share of the minority interest in net identifiable assets of the acquired entity.

Consolidation procedure for assets and liabilities held for sale (IFRS 5)

Non-current assets and liabilities are classified as held for sale, in accordance with the provisions of IFRS 5.

Consolidation of foreign companies

The financial statements of investee companies operating in currencies other than the Euro, which is the functional currency of the Parent Company Acea, are converted into Euros by applying the exchange rate at the end of the period to the assets and liabilities, and the average exchange rates for the period to income statement items and to the cash flow statement.

The exchange differences arising from the translation of the financial statements of investee companies operating in currencies other than the Euro are recognised directly in equity and are shown separately in a specific reserve of; this reserve is reversed to the income statement at the time of complete disinvestment or loss of control, joint control or significant influence over the investee company. In the case of partial disposal:

without loss of control, the share of the exchange differences relating to the shareholding sold is attributed to the shareholders' equity pertaining to minority interests;

without loss of joint control or significant influence, the portion of exchange differences relating to the shareholding sold is recognised in the income statement.

SCOPE OF CONSOLIDATION

The Acea Group's Consolidated Financial Statements include the financial statements of the Parent Company, Acea, and the financial statements of the Italian and foreign subsidiaries, for which, in accordance with the provisions of IFRS 10, there is exposure to the variability of returns and of which a majority of voting rights in the ordinary meetings is held, either directly or indirectly, and consequently the ability to influence the investee returns by exerting management power. Furthermore, the companies on which the Parent Company exercises joint control with other shareholders are consolidated using the equity method.

A. Changes in the scope of consolidation

With regard to the scope of consolidation, as at 31 December 2019 it should be noted that:

- the line-by-line consolidation of the company Pescara Distribuzione Gas, which the Parent Company acquired a 51% stake in on 18 March;
- the line-by-line consolidation of the companies Acea Solar and Acea Sun Capital established on April 30 (subsidiaries of Acea Produzione). The latter has the function of accommodating acquisitions of photovoltaic systems. The first acquisition took place on 27 June through the acquisition of 100% of KT4. During the months of July and August, Belenergia acquired 65% of the following companies: Acquaviva, Compagnia Solare 2, Compagnia Solare 3, SPES, Solaria Real Estate, Brindisi Solar; on 26 September the acquisitions of Sisine Energia and Luna Energia were completed; on 10 October the purchase of Marche Solar was completed, on 12 November the companies Urbe Solar and Urbe Cerig were acquired and finally in December the purchase of Trinovolt was completed;
- the line-by-line consolidation of the companies acquired by Acea Ambiente: 90% Demap, a company operating in Piedmont in the field of plastics recycling, acquired on 4 July, and 60% Berg, a company performing waste management in the Municipality of Frosinone, acquired on 18 October;

- the full consolidation of the newly formed Acea Innovation, operating in the field of Technological Innovation, as of 25 June 2019;
- the line-by-line consolidation of AdF effective 7 October 2019 following the amendment of the shareholders' agreements that allowed Acea to exercise control over the company in accordance with IFRS 10.

It should also be noted that the company Acea Illuminazione Pubblica SpA, placed in liquidation on 13 December 2018, approved

the Final Financial Statements and the related distribution plan on 7 February 2019, and that the company Lunigiana Acque SpA, placed in liquidation on 28 July 2011, was deleted from the Company Register on 20 December 2019.

B. Unconsolidated investments

Tirana Acque S.c.a.r.l. in liquidation, 40% owned by Acea, is recognised at cost. The subsidiary, entirely devalued, is excluded from the scope of consolidation as it is not operational and its relevance in qualitative and quantitative terms is not significant.

ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

MEASUREMENT CRITERIA

Currency conversion

Transactions in foreign currencies are initially recognised at the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies were converted into the functional currency at the exchange rate prevailing at the balance sheet date. All exchange differences are recorded in the Income Statement of the Consolidated Financial Statements, with the exception of differences deriving from loans in foreign currency that have been entered into to hedge a net investment in a foreign company. These differences are recognised directly in equity until the net investment is disposed of and at that time any subsequent exchange rate difference is recognised in the Income Statement. The tax effect and receivables attributable to the exchange differences deriving from this type of loan are also attributed directly to equity.

Non-monetary assets and liabilities denominated in foreign currency and recorded at historical cost are converted using the exchange rate in force on the date of initial recognition of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and recognized at fair value are converted using the exchange rate on the date of determination of this value. Any emerging exchange differences are reflected in the income statement.

Non-monetary items recorded at fair value are converted using the exchange rate on the date of calculation of this value.

Revenue recognition

In accordance with the provisions of IFRS 15 “Revenue from contracts with customers”, revenues are recognised for an amount that reflects the consideration to which the entity believes it is entitled in exchange for the transfer of goods or services to the customer.

The fundamental parts for accounting purposes are:

1. identify the commercial contract, defined as a (written or verbal) agreement between two or more parties which results in rights and obligations with the customer having the right to legal protection;
2. identify the separately identifiable obligations to do something (also “performance obligations”) contained in the contract;
3. determine the price of the transaction, as the fee the enterprise expects to receive for the transfer of assets or the performance of services to the customer, in accordance with the techniques in the Standard and depending on the possible presence of financial and variable components;
4. allocate a price to each performance obligation;
5. to recognize the revenue when the revenue obligation is fulfilled by the entity, allowing for the fact that the services may not be provided at a specific time, but over a period of time.

Revenues are valued at the fair value of the consideration received or receivable, taking into account the value of any commercial discounts, returns and rebates granted by the Group. Specifically:

- **revenues from the sale and transport of electricity and gas** are recognised at the time the service is supplied or supplied, even if they are not invoiced, and are determined by adding estimates calculated on the basis of pre-established reading calendars. These revenues are calculated on the basis of the provisions of the law, of the resolutions of the Authority for electricity and gas

and the water system in force during the period, also taking into account the pro tempore equalisation measures in force; it should be noted that with reference to the valorisation of revenues from the transport of electricity, if the admission of investments in tariffs that establishes the right to payment for the operator is virtually certain already in the year in which they are realized, the corresponding revenues they are ascertained on an accrual basis regardless of how they will be financially recognized as a result of ARERA Resolution 654/2015;

- **the revenues of the integrated water service** are determined on the basis of the Water Tariff Method (MTI), valid for the determination of the tariffs for the years 2016-2019, approved with Resolution no. 664/15/R/idr and subsequent modifications by ARERA. Based on the interpretation of the legal nature of the tariff component Fo.NI. (New Investments Fund) is entered among the revenues for the year the relative amount due to the Water Companies where expressly recognized by the Area Authorities which establish the intended use. The adjustment for the so-called pass-through items is also entered among the revenues of the year (i.e. electricity, wholesale water) of which the aforementioned resolution provides specific details as well as any adjustment relating to costs pertaining to the Integrated Water System incurred for the occurrence of exceptional events (i.e. water and environmental emergencies) if the preliminary investigation for their recognition gave positive results.

Contributions

Contributions obtained for investments in plants, both by public bodies and by private third parties, are recognised at fair value when there is a reasonable certainty that they will be received and that expected conditions will be met.

Water connection fees are recorded among other non-current liabilities and released to the income statement over the life of the investment to which they refer, if related to an investment, and fully recognized as income if they are related to costs incurred.

Operating grants (granted for the purpose of providing immediate financial assistance to the company or as compensation for expenses and losses incurred in a previous year) are recognised in full in the Income Statement when the conditions for recognition are met.

Construction contracts in progress

Construction contracts in progress are assessed on the basis of the contractual fees accrued with reasonable certainty, according to the percentage of completion criterion (the so-called cost to cost), so as to attribute the revenues and the economic result of the contract to the individual financial years in proportion to the progress of the works. The positive or negative difference between the value of the contracts and the advances received is recorded respectively in the assets or in the liabilities side of the balance sheet. Contract revenues, in addition to contractual fees, include variants, price revisions and recognition of incentives to the extent that they are likely to represent actual revenues and if these can be determined reliably. Ascertained losses are recognised regardless of the progress of orders.

Employee benefits

Benefits guaranteed to employees paid in connection with or following termination of employment through defined benefit and de-

financed contribution plans (such as: employee severance indemnities, additional monthly salaries, tariff concessions, as described in the notes) or other long-term benefits are recognised in the period of accrual of the right. The valuation of the liability is carried out by independent actuaries. These funds and benefits are not funded.

The cost of benefits envisaged by the various plans is determined separately for each plan using the actuarial valuation method of the unit credit projection, making the actuarial valuations at the end of each year.

Profits and losses deriving from the actuarial calculation are recorded in the statement of comprehensive income, then in a specific Shareholders' equity Reserve, and are not subsequently charged to the Income Statement.

Financial income

Income is recognised on the basis of interest accrued on the net value of the relevant financial assets using the effective interest rate (rate that exactly discounts estimated future cash flows at the net carrying amount of the asset). Interest is recorded as an increase in the financial assets shown in the financial statements.

Dividends

These are recognised when the unconditional right of shareholders is established to receive payment. They are classified in the income statement under the item investment income.

Taxes

Income taxes for the year represent the sum of current and deferred taxes.

Current taxes are based on the taxable results for the year. Taxable income differs from the results reported in the Income Statement because it excludes positive and negative components that will be taxable or deductible in other financial years and also excludes items that will never be taxable or deductible. The liability for current taxes is calculated using the rates in force or in fact in force at the balance sheet date as well as taxation instruments allowed by tax legislation (national tax consolidation and/or taxation for transparency).

Deferred taxes are the taxes that are expected to be paid or recovered on temporary differences between the book value of assets and liabilities in the financial statements and the corresponding tax value used in the calculation of the taxable income, recorded according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent where it is probable that there will be future taxable results that allow the use of deductible temporary differences. These assets and liabilities are not recognized if the temporary differences derive from goodwill or from initial recognition (not in business combination transactions) of other assets or liabilities in transactions that have no influence on the accounting result or on the taxable result.

Deferred tax liabilities are recognized on the taxable temporary differences relating to investments in subsidiaries, associates and joint ventures, with the exception of cases in which the Group is able to control the cancellation of such temporary differences and it is probable that the latter will not they will cancel in the foreseeable future. The carrying amount of deferred tax assets is revised at each balance sheet date and reduced to the extent that, based on the plans approved by the Board of Directors of the Parent, the existence of sufficient taxable income is not considered likely to allow all or partly the recovery of these assets.

Deferred taxes are calculated based on the tax rate that is expected to be in effect at the time the asset is realised or the liability is relieved. Deferred taxes are charged directly to the Income Statement, with the exception of those relating to items recognised directly in equity, in which case the relevant deferred taxes are recognised in equity.

Tangible assets

Tangible assets are recognised at historical cost, including ancillary costs directly attributable and necessary for putting the asset into service for the use for which it was purchased, net of the relevant accumulated depreciation and any accumulated impairment losses.

The cost includes the costs of the dismantling and removal of the assets and the costs of reclamation of the site on which the tangible assets stand, if they comply with the provisions of IAS 37. The corresponding liability is recognized in the liability item for risks and charges. Assets composed of components of a significant amount with a different useful life.

The costs for improvements, modernisation and transformation that increase the value of tangible assets are recognised as assets when it is probable that they will increase the expected future economic benefits of the asset.

Land, whether free of construction or annexed to civil and industrial buildings, is not depreciated as it has an unlimited useful life.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Systems and equipment under construction for production purposes or for purposes yet unknown are recorded at cost, net of write-downs for losses in value. The cost includes any professional fees and, where applicable, capitalised financial charges. The depreciation of these assets, as for all other assets, begins when the assets are ready for use. For some types of complex goods for which long-lasting functional tests are required, the suitability for use is attested by the positive passing of these tests.

Profits and losses deriving from the sale or disposal of assets are determined as the difference between the sale revenue and the net book value of the asset and are recorded in the Income Statement for the year.

Real Estate Investments

Real estate investments, represented by properties held for rental and / or capital appreciation, are recorded at purchase cost including negotiation costs net of the relevant accumulated depreciation and any impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Real estate investments are eliminated from the financial statements when they are sold or when the investment property is permanently unusable and no future economic benefits are expected from its possible sale.

The sale of real estate which results in the leaseback of the assets is recorded on the basis of the substantial nature of the transaction considered as a whole. In this regard, reference is made to what has been explained regarding Leases.

Any profit or loss deriving from the elimination of an investment property is recorded in the Income Statement in the year in which the elimination takes place.

Intangible assets

Intangible assets refer to assets without identifiable physical substance, controlled by the company and capable of producing future economic benefits, as well as the goodwill purchased for consideration. Intangible assets acquired separately are capitalised at cost, while those acquired through business combinations are capitalised at the fair value defined on the purchase date. After the first entry into the category of intangible assets, the cost criterion applies.

The useful life of intangible assets can be qualified as definite or indefinite. Goodwill and intangible assets with an indefinite useful life are not amortised. The recoverability of their carrying value is reviewed at least annually and whenever events or changes in circumstances indicate that the carrying value may be reduced. In contrast, depreciation of the useful life is calculated at constant rates based on the estimated useful life, which is reviewed annually and any changes, where possible, are made with prospective applications.

Depreciation begins when the intangible asset is available for use. Gains or losses deriving from the disposal of an intangible asset are determined as the difference between the disposal value and the carrying amount of the asset and are recorded in the Income Statement at the time of disposal.

Goodwill

Goodwill deriving from business combinations (including but not limited to, the acquisition of subsidiaries, jointly controlled entities or the acquisition of business units or other extraordinary transactions) represents the excess of the cost acquisition of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly-controlled entity at the acquisition date compared to the Group's share of the fair value. Goodwill is recognised as an asset and reviewed annually to verify that it has not suffered any loss in value. If there is joint control, or even affiliated, the goodwill of investments recognised according to the equity method remains implicit in the value of the investment.

The losses in value are recorded immediately in the income statement and are not subsequently restored.

At the acquisition date, any emerging goodwill is allocated to each of the independent cash generating units that are expected to benefit from the synergistic effects deriving from the acquisition. Any loss in value is identified through assessments that refer to the capacity of each unit to generate cash flows to recover the part of goodwill allocated to it. In the event that the recoverable amount by the cash-generating unit is lower than the assigned load value, the relative loss in value is recorded.

In the event of the sale of a subsidiary or jointly controlled entity, the amount not yet amortized of the goodwill attributable to them is included in the determination of the gain or loss on disposal.

Concessions

This item includes the value of the concession right to the assets consisting of water and purification plants that were transferred. This value refers to state property belonging to the so-called "accidental state" of water and sewage treatment and is systematically amortised based on the residual duration of the concession. It should be noted that the residual depreciation period is in line with the average duration of the operations entrusted with a public procedure.

Also included in this entry:

- the net value of the goodwill deriving from the transfer of the sewerage service effected with effect from 1 September 2002 from Roma Capitale to Acea Ato 2;
- the higher cost, for the portion attributable to this item, deriving from the acquisition of the A.R.I.A. with particular reference to SAO, the company that manages the Orvieto landfill, now merged into Acea Ambiente.

Infrastructure law

In line with the provisions of IFRIC 12 "Service Concession Arrangements", based on the intangible asset model the Group reports the total amount of the physical infrastructure supplied for the management of the water service, since the service concession contract does not give the concessionaire the right to control the use of the public service infrastructure but rather allows access to the management of the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

In fact, the aforementioned interpretation requires the registration of a single intangible asset representing the concessionaire's right to charge the fee to users of the public service instead of the takeover of the physical infrastructure for the management of the service.

The amount also includes the capitalisation of the margin resulting from investments.

Rights of use of intellectual property

Costs related to this item are included under intangible assets and are amortized on the basis of a period of presumed usefulness of three / five years.

Impairment

Goodwill and other assets with an indefinite useful life are not amortised on a straight-line basis, but are tested for impairment at least once a year by the individual Cash Generating Units (CGUs) or groups of CGUs to which assets with an indefinite useful life can be reasonably allocated, in accordance with Group procedures. Every year, according to its own impairment procedure, the Company carries out an analysis of all the CGUs of the group identified independently of the allocation of any goodwill or the presence or absence of impairment indicators.

The test consists of a comparison between the carrying amount of the asset and its estimated value in use – VIU. Given the nature of the activities carried out by the Acea Group, the method of determining the "VIU" is carried out by discounting the expected cash flows from use and, if significant and reasonably determinable, from disposal at the end of the useful life. However, where there is evidence of a reliable fair value (price traded in an active market, comparable transactions, etc.) the Group assesses the adoption of this value for impairment testing.

Cash flows are determined on the basis of the best information available at the time of the estimate, which can be inferred through the combined use of the financial method and sensitivity analyses. The determination of the "VIU" is carried out using the financial method (Discounted Cash Flow – DCF) which considers the ability to produce cash flows as the fundamental element for the valuation of the entity of reference. The application of the financial method to determine the value in use of a CGU involves estimating the present value of net operating cash flows for tax purposes. If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative book value, it is reduced to the lower recoverable value. An impairment loss is immediately recognised in the Income Statement, unless the asset is represented by land or buildings other than real estate investments recorded at revalued values, in which case the loss is recognised in the respective revaluation reserve.

When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the income statement, unless the asset is carried at a revalued amount, in which case the reversal is recognised in the revaluation reserve.

Where an impairment charge is recognised in the income statement, it is included among amortisation, depreciation and impairment charges.

Emission allowances, green certificates and white certificates

Different accounting policies are applied by the Group to allowances or certificates held for own use in the "Industrial Portfolio", and those held for trading purposes in the "Trading Portfolio".

Surplus allowances or certificates held for own use, which are in excess of the company's requirement in relation to the obligations accruing at the end of the year, are accounted for at cost in other intangible assets. Allowances or certificates assigned free of charge are accounted for at a zero value.

Given that these are assets for instant use, they are not amortised but are tested for impairment. The recoverable amount is the higher of the asset's value in use and its market value.

The burden resulting from the fulfilment of the energy efficiency

obligation is estimated on the basis of the average purchase price for the contracts entered into, taking into account the certificates in the portfolio at the financial statements date; a provision for liabilities is allocated for the negative difference between the said burden and the contribution estimated pursuant to AEEGSI Resolution 13/2014/R/efr, to be paid at the time the certificates are delivered in fulfilment of the obligation.

Allowances or certificates held for trading in the “Trading Portfolio” are accounted for in inventories and measured at the lower of purchase cost and estimated realisable value, based on market trends. Allowances or certificates assigned free of charge are accounted for at a zero value. Market value is established on the basis of any spot or forward sales contracts already signed at the end of the reporting period, or otherwise on the basis of market prices.

Inventories

Warehouse stock is valued as the difference between costs and net value of earnings. Costs include direct materials and, where applicable, direct labour, general production expenses and other costs sustained to bring the stock to its current conditions and location. Cost is calculated using the moving weighted average method. The net value of earnings is estimated sales price minus estimated costs for completion and estimated costs necessary to execute the sale. Devaluations of warehouse stock, according to its nature, are made through allocation funds, written in the balance sheet reducing assets entries, i.e. item by item, offsetting variations of leftover stock in the Income Statement.

Financial instruments

Financial assets and liabilities refer to the moment in which the Group became party to the instrument’s contractual provisions.

Financial assets – debt instruments

Depending on the characteristics of the instrument and the business model implemented for its management, financial assets (which represent debt instruments) are classified into the following three categories: 1) financial assets measured at amortised cost; 2) financial assets measured at fair value with recognition of the effects among the other components of comprehensive income (hereinafter also OCI); 3) financial assets measured at fair value with recognition of the effects in the income statement.

Initial recognition takes place at fair value. For trade receivables without a significant financial component, the initial recognition value is represented by the transaction price.

Subsequent to initial recognition, financial assets that generate contractual cash flows exclusively representing capital and interest payments are valued at amortised cost if held for the purpose of collecting contractual cash flows (so-called “hold to collect” model). According to the amortised cost method, the initial recognition value is subsequently adjusted to take into account capital repayments, any write-downs and the amortisation of the difference between the repayment amount and the initial recognition value.

Amortisation is based on the effective internal interest rate, which represents the rate that makes the present value of expected cash flows and the initial book value equal at the time of initial recognition. Receivables and other financial assets measured at amortised cost are presented in the balance sheet net of the related provision for bad debts.

The financial assets representing debt instruments whose business model envisages both the possibility of collecting contractual cash flows and the possibility of realising capital gains on disposal (so-called “hold to collect and sell” business model) are valued at fair value with allocation of the effects to OCI (hereinafter also FVTOCI).

In this case, changes in the fair value of the instrument are recognised under shareholders’ equity among other components of com-

prehensive income. The cumulative amount of changes in fair value recognised in the shareholders’ equity reserve that includes the other components of the overall profit is reversed in the income statement when the instrument is derecognised. Interest income calculated using the effective interest rate, exchange rate differences and write-downs is recognised in the income statement.

A financial asset representing a debt instrument that is not valued at amortised cost or at the FVTOCI is valued at fair value with the effects being charged to the income statement (hereinafter FVTPL). This category includes financial assets held for trading purposes.

When the purchase or sale of financial assets takes place according to a contract that envisages the settlement of the transaction and the delivery of the asset within a specified number of days, established by the market control bodies or by market conventions (e.g. purchase of securities on regulated markets), the transaction is recognised on the date of settlement.

The financial assets sold are derecognised when the contractual rights associated with obtaining the cash flows associated with the financial instrument expire or are transferred to third parties.

Write-downs of financial assets

The assessment of the recoverability of the financial assets representing debt instruments not valued at fair value with effects on the income statement is made on the basis of the so-called “Expected credit loss model”.

In particular, expected losses are generally determined on the basis of the product between: 1) the exposure owed to the counterparty net of the relative mitigating factors (so-called “Exposure at Default”); 2) the probability that the counterparty does not comply with its payment obligation (so-called “Probability of Default”); 3) the estimate in percentage terms of the amount of credit that will not be able to be recovered in the event of a default (so-called “Loss Given Default”), based on past experience and possible recovery actions that can be taken (e.g. out-of-court actions, legal disputes, etc.).

In this regard, the internal ratings already used for the assignment have been adopted to determine the probability of default of the counterparties. For counterparties represented by State Entities and in particular for the National Oil Companies, the probability of default – essentially represented by the probability of late payment – is determined using as input the country risk premiums implemented for the purposes of determining the WACC for the impairment of non-financial assets.

For retail customers not having internal ratings, the assessment of expected losses is based on a provision matrix, constructed where appropriate by grouping the clustered receivables to which write-down percentages apply based on the experience of previous losses, adjusted where necessary to take account of forecast information regarding the credit risk of the counterparty or of clusters of counterparties.

Financial assets related to agreements for services under concession

With reference to the application of IFRIC 12 to the Public Lighting service concession, Acea has adopted the Financial Asset Model, recognising a financial asset to the extent that it has an unconditional contractual right to receive cash flows. In addition, the Group reports revenues on the contract for construction and improvement services, both for the part carried out internally by the Group and for the part of Third Parties. The margin recorded equal to 5% of the costs incurred is accounted for according to the provisions of IFRS 15 and amortised over the residual duration of the concession.

Cash and cash equivalents

This item includes cash and bank current accounts and deposits repayable on demand or very short term and other highly liquid short-

term financial investments, which are readily convertible into cash and are subject to a non-significant risk of changes in value.

Financial liabilities

Financial liabilities other than derivative instruments – including financial payables, trade payables, other payables and other liabilities – are initially recognised at the fair value less any costs associated with the transaction. Subsequently they are recognised at amortised cost using the effective interest rate for discounting purposes, as illustrated in the previous point “Financial assets”.

Financial liabilities are eliminated when they are extinguished or when the obligation specified in the contract is fulfilled, cancelled or expired.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset in the balance sheet when there is a currently exercisable legal right to offset, and the intention is to settle the relationship on a net basis (i.e. to sell the asset and simultaneously settle the liability).

Derivative financial instruments and hedge accounting

Derivative financial instruments, including implicit ones (Embedded derivatives) are assets and liabilities recognised at fair value according to the criteria specified in the point below, “Fair value valuations”.

As part of the strategy and objectives set for risk management, the qualification of transactions as hedges requires: 1) verification of the existence of an economic relationship between the hedged item and the hedging instrument that can offset the related changes in value, and that this capacity to offset is not affected by the level of counterparty credit risk; 2) the definition of a hedge ratio consistent with risk management objectives, within the defined risk management strategy, where necessary making the appropriate rebalancing actions. Changes in risk management objectives, the absence of the conditions specified above for the classification of transactions as hedges or the implementation of rebalancing operations results in the total or partial prospective discontinuation of the hedge.

When hedging derivatives cover the risk of changes in the fair value of the hedged instruments (fair value hedge; e.g. hedging of the variability of the fair value of fixed rate assets/liabilities), the derivatives are recognised at fair value with the allocation of effects in the income statement. Similarly, the hedged instruments in the income statement reflect the changes in fair value associated with the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the type of instrument.

When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedge; e.g. hedging of the variability of the cash flows of assets/liabilities due to fluctuations in interest rates or exchange rates), the changes in the fair value of derivatives considered to be effective are initially recognised in the shareholders' equity reserve relating to the other components of comprehensive income, and subsequently recognised in the income statement consistent with the economic effects produced by the hedged transaction. In the case of hedging of future transactions that involve the recognition of a non-financial asset or liability, the accumulated changes in the fair value of hedging derivatives, recognised in equity, are recognised as an adjustment to the carrying amount of the asset./non-financial liability subject to hedging (so-called basis adjustment).

The ineffective portion of the hedge is recorded in the income statement item “Financial (costs)/income”. Changes in the fair value of derivatives that do not meet the conditions to be qualified as hedges, including any ineffective components of hedging derivatives, are recognised in the income statement. In particular, changes in the fair value of non-hedging derivatives on interest rates and currencies are recognised in the income statement item “Financial (costs)/income”.

Embedded derivatives – embedded in financial assets – are not subject to separate accounting. In these cases, the entire hybrid instrument is classified according to the general criteria for the classification of financial assets.

Embedded derivatives embedded in financial liabilities and/or non-financial assets are separated from the main contract and recognised separately if the embedded instrument: 1) meets the definition of a derivative; 2) as a whole it is not valued at fair value with the effects being charged to the income statement (FVTPL); 3) if the characteristics and risks of the derivative are not strictly linked to those of the main contract. Verification of the existence of embedded derivatives to be separated and valued separately is carried out when the company enters into the contract, and subsequently if there are changes in the terms of the contract that lead to significant changes in the cash flows generated by that contract.

Valuation at fair value

The fair value is the consideration that can be received for the sale of an asset or that can be paid for the transfer of a liability in a regular transaction between market operators at the valuation date (i.e. exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use in determining the price of the asset or liability. The fair value measurement also assumes that the asset or liability is exchanged in the main market or, in the absence thereof, in the most advantageous market the company has access to.

The determination of the fair value of a non-financial asset is made considering the ability of market operators to generate economic benefits by using this asset in its highest and best use or by selling it to another participant in the market able to use it, maximising its value. The determination of the highest and best use of the asset is made from the point of view of market operators even in the case where the company intends to use it differently. It is assumed that the company's current use of a non-financial asset is its highest and best use unless the market or other factors suggest that a different use by market operators is able to maximise its value.

The valuation of the fair value of a liability, both financial and non-financial or of a capital instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument. If this quoted price is not available, the valuation of the corresponding asset held by a market operator at the valuation date is considered. The fair value of financial instruments is determined considering the credit risk of the counterparty of a financial asset (so-called “Credit Valuation Adjustment” – CVA) and the risk of default by the entity itself, with reference to a financial liability (so-called “Debit Valuation Adjustment” – DVA). In determining fair value, a hierarchy of criteria is defined based on the origin, type and quality of the information used in the calculation.

This classification aims to establish a hierarchy in terms of reliability of the fair value, giving precedence to the use of observable market parameters that reflect the assumptions that market participants would use in the valuation of the asset/liability. The fair value hierarchy has the following levels:

- level 1: inputs represented by quoted prices (unmodified) in active markets for identical assets or liabilities that can be accessed on the valuation date;
- level 2: inputs other than the prices included in Level 1 that are directly or indirectly observable for the assets or liabilities to be valued;
- level 3: unobservable inputs for the asset or liability. In the absence of available market quotations, the fair value is determined using valuation techniques appropriate to the individual cases that maximise the use of relevant observable inputs, minimising the use of unobservable inputs.

Provisions for risks and charges

Provisions for risks and charges are made when the Group has to meet a current obligation (legal or implicit) deriving from a past event, where it is probable that an outlay of resources will be required to satisfy the obligation and a reliable estimate can be made on the amount of the obligation.

The provisions are allocated based on the Management's best estimate for the costs required to fulfil the obligation at the balance sheet date, and if the effect is significant.

When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is determined by discounting the expected future cash flows at the average rate of the company's debt taking into account the risks associated with the obligation; the increase in the provision associated with the passage of time is recognised in the Income Statement under the item "Financial income/(charges)".

If the debt is related to the dismantling and/or renovation of material assets, the initial fund is reported as an offset to the asset it refers to; its incidence on the Income Statement takes place through the process of amortisation of the material fixed asset to which the obligation refers.

ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS APPLIED AS OF 1 JANUARY 2019

IFRS 16 Leases

Issued in January 2016, this standard replaces the previous standard on leases, IAS 17 and the related interpretations, identifies the criteria for the recognition, measurement, presentation and disclosures to be provided with reference to lease agreements for both the lessor and the lessee. IFRS 16 marks the end of the distinction in terms of classification and accounting treatment of operating leases (with off-balance sheet disclosures) and finance leases (recognised in the financial statements). The right to use the leased asset ("Right of Use") and the commitment made will result from financial data in the financial statements (IFRS 16 applies to all transactions involving a right of use, regardless of the contractual form, i.e. lease, rental or hire purchase). The main new development is the introduction of the concept of control within the definition. More specifically, to determine whether a contract is a lease, IFRS 16 requires a lessee to verify whether it has the right to control the use of a given asset for a specified period of time.

There is no accounting symmetry with the lessor, which continues to apply a separate accounting treatment depending on whether the contract is an operating lease or a finance lease (on the basis of current guidelines). On the basis of this new model, the lessee shall recognise:

- in the balance sheet, the assets and liabilities for all leases that have a term exceeding 12 months, unless the underlying asset has a modest value;
- in profit or loss, depreciation of the leased assets separately from interest on the related liabilities.

For the first-time adoption of the principle, the transition approach used by the Acea Group was the modified retrospective approach, and therefore the contracts whose leases – including renewals – will end within 12 months from the date of first application will not be included. The Group has also used the possibility envisaged by the principle of not accounting separately for the non-lease component of mixed contracts, therefore choosing to treat these contracts as a lease.

For further details, reference should be made to the paragraph "Effects deriving from the introduction of new accounting standards".

"IFRIC 23 – Uncertainty over Income Tax Treatments"

The interpretation provides clarifications on the recognition and

measurement of IAS 12 – Income Taxes regarding the accounting treatment of income tax in the event of regulatory uncertainty, also aimed at improving transparency. IFRIC 23 does not apply to taxes and duties that do not fall under the scope of IAS 12.

"Conceptual Framework"

The objective of the project on Conceptual Framework is to improve financial reporting by providing a more complete, clear and updated set of conceptual elements. The purpose of the Framework is to: a) assist the Board in the development of IFRS based on coherent concepts; b) assist the preparation of financial statements in the development of consistent accounting policies when no IFRS applies to a particular transaction or event or when a standard allows a choice of accounting policy; c) assist others in understanding and interpreting the standards.

The main changes compared to the 2010 version concern:

- a new chapter on valuation;
- better definitions and guidance, in particular with regard to the definition of liabilities;
- clarification of important concepts, like stewardship, prudence and uncertainty in valuations.

"Amendments to IAS 19"

On 7 February 2018 the IASB published its interpretation of "Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)" which requires companies to use up-to-date actuarial assumptions in order to determine pension charges following changes to defined benefits for employees.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2015-2017 CYCLE)

On 12 December 2017 the IASB published the document "Annual Improvements to IFRSs: 2015-2017 Cycle".

The document introduces amendments to the following standards:

- IFRS 3 – Business Combinations:** The IASB added paragraph 42A to IFRS 3 to clarify that when an entity obtains control of an asset that is a joint operation, it must recalculate the value of that asset, since such transaction would be considered as a business combination achieved in stages and therefore to be counted on this basis;
- IFRS 11 – Joint Arrangements:** Furthermore, paragraph B33CA was added to IFRS 11 to clarify that if a party participates in a joint operation but does not have joint control and subsequently obtains joint control over the joint operation (which constitutes an asset as defined in IFRS 3), it is not required to restate the value of this asset;
- IAS 12 – Income Taxes:** This amendment clarifies that the tax effects of income taxes arising from the distribution of profits (i.e. dividends), including payments on financial instruments classified as equity, must be recognised when a liability for payment of a dividend is recognised. The consequences of income taxes must be recognised in the income statement, in the comprehensive income statement or in the shareholders' equity in consideration of the nature of the transactions or the past events that generated the distributable profits or as they were initially recognised;
- IAS 23 – Borrowing Costs:** The amendment clarifies that in calculating the capitalisation rate for loans, an entity should exclude the financial charges applicable to loans made specifically to obtain an asset, only until the asset is ready and available for its intended use or sale. Financial charges related to specific loans that remain after the asset is ready for intended use or for sale must subsequently be considered as part of the entity's general debt burden.

These changes must be applied retrospectively for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AFTER CLOSURE OF THE YEAR AND NOT ADOPTED IN ADVANCE BY THE GROUP

“Amendments to IFRS 3 – Business Combination”

Issued on 22 October 2018 to resolve interpretative difficulties that arise when an entity needs to determine whether it has acquired a business or a group of businesses. The amendments are effective for business combinations for which the acquisition date is after 1 January 2020.

“Amendments to IAS 1 and IAS 8”

Issued on 31 October 2018 to clarify the definition of “material” and in order to align the definition used in the Conceptual Framework and in the standards themselves. The amendments are effective for periods beginning on or after 1 January 2020. Earlier application is permitted.

EFFECTS DERIVING FROM THE INTRODUCTION OF NEW ACCOUNTING STANDARDS

IFRS 16 Leases

With effect from 1 January 2019, the Group applied the new standard “IFRS 16 – Leasing” for the first time, issued in January 2016 and approved by the European Union with EU Regulation 2017/1986 of 31 October 2017.

The transition approach adopted by the Group was the modified retrospective approach, and therefore the contracts whose leases – including renewals – will end within 12 months from the date of first application will not be included. Moreover, the Group has also used the possibility envisaged by the principle of not accounting separately for the non-lease component of mixed contracts, therefore choosing to treat these contracts as a lease.

Therefore, the impact of the opening of the balance sheet at 1 January 2019 led to the recognition of an asset of € 53.6 million (so-called right of use) consisting of the right to use the underlying asset and an obligation of the same amount to make payments due for the lease, which has a negative impact on net financial debt. The effects deriving from the first application of IFRS 16 as at 1 January 2019 are shown in the table below:

ASSETS

€ thousand	31/12/2018	IFRS16	Data as at 01/01/2019
NON-CURRENT ASSETS	5,735,514	53,679	5,789,192
<i>of which Right of use</i>	0	53,679	53,679

LIABILITIES

€ thousand	31/12/2018	IFRS16	Data as at 01/01/2019
NON-CURRENT LIABILITIES	3,374,134	46,015	3,420,149
<i>of which Borrowings and financial liabilities</i>	3,374,134	46,015	3,420,149
CURRENT LIABILITIES	2,290,670	7,664	2,298,333
<i>of which Financial debts</i>	408,675	7,664	416,338

For payable discounting purposes, the Group has used an IBR calculated based on a risk-free rate with a maturity equal to the residual duration for each contract plus the credit spread assigned to Acea SpA by Moody's. Finally, it should be noted that there are no significant differences between the commitments arising from lease contracts discounted at the same rate and the value recognised in accordance with IFRS 16.

“IFRIC 23 – Uncertainty over Income Tax Treatments”

With effect from 1 January 2019, the Group has analysed the possible impact of the application of IFRIC 23, published with the aim of clarifying how to apply the valuation criteria set out in IAS 12 to calculate income taxes when conditions of uncertainty about the amounts actually due exist. It should be noted that the interpretation does not introduce new methods, since they are already used by companies in the context of the estimates required by IFRS 15 and IAS 37 and are already widely applied in the context of the es-

timates required by IAS 12. Moreover, the interpretation does not add any additional disclosure requirements to those already envisaged in IAS 12 and IAS 1.

From the analysis carried out, the Group considered that since it has not revised its methods for estimating funds, considering them already consistent with the interpretation, there are no disclosure requirements that go beyond those already envisaged by IAS 1 and 12. Therefore, the Group already provides adequate disclosure and has always applied the valuation criteria set out in IAS 12 and IAS 1, as set out in IFRIC 23, while the calculation of income taxes when conditions of uncertainty exist was carried out using criteria already consistent with IFRIC 23.

Given that, as mentioned above, IFRIC 23 has not introduced new and additional disclosure requirements, there are no uncertain positions for which the Acea Group does not already provide adequate disclosure in its financial statements.

CONSOLIDATED INCOME STATEMENT

Ref. Note		2019	Of which related party transactions	2018	Of which related party transactions	Change
1	Revenue from sales and services	3,022,193		2,836,890		185,303
2	Other revenue and proceeds	163,943		191,597		(27,654)
	Consolidated net revenues	3,186,136	87,443	3,028,487	127,314	157,649
3	Personnel costs	248,871		219,624		29,248
4	Costs of materials and overheads	1,936,434		1,918,936		17,498
	Consolidated operating costs	2,185,306	39,349	2,138,560	47,225	46,746
5	Net income/(costs) from commodity risk management	99				99
6	Income/(costs) from equity investments of a non-financial nature	41,367		43,320		(1,953)
	EBITDA	1,042,297	48,093	933,247	80,088	109,050
7	Net write-downs (write-backs) of trade receivables	66,814		75,080		(8,266)
8	Depreciation, amortisation and provisions	457,376		379,607		77,769
	Operating profit/(loss)	518,107	48,093	478,560	80,088	39,547
9	Financial income	15,787	5,194	17,838	13,303	(2,051)
10	Financial costs	(106,089)	(407)	(100,697)	0	(5,392)
11	Income/(Costs) from equity investments	2,585		13,332		(10,748)
	Profit/(loss) before tax	430,390	52,880	409,033	93,391	21,357
12	Income taxes	123,213		124,334		(1,121)
	Net profit/(loss)	307,177	52,880	284,699	93,391	22,478
	Net profit/(loss) from discontinued operations					
	Net profit/(loss)	307,177	52,880	284,699	93,391	22,478
	Profit/(loss) attributable to minority interests	23,491		13,700		9,791
	Net profit/(loss) attributable to the Group	283,686		270,999		12,687
13	Earnings (loss) per share attributable to Parent Company's shareholders					
	Basic	1.33208		1.27250		0.05957
	Diluted	1.33208		1.27250		0.05957

Amounts in € thousand

COMPREHENSIVE CONSOLIDATED INCOME STATEMENT

€ thousand	2019	2018	Change
Net income for the period	307,177	284,699	22,478
Profit/loss from conversion of financial statements expressed in foreign currency	367	279	87
Reserve for exchange differences	(5,299)	(11,103)	5,804
Tax reserve for exchange differences	1,272	2,665	(1,393)
Gains/losses from exchange rate difference	(4,028)	(8,438)	4,411
Effective portion of profits/(losses) on hedging instruments ("cash flow hedges")	(2,019)	22,657	(24,675)
Tax effect of other gains/(losses) on hedging instruments ("cash flow hedges")	1,108	(5,686)	6,795
Profit/loss from the effective portion on hedging instruments net of tax effect	(910)	16,970	(17,881)
Actuarial gains/(losses) on employee benefits recognised in equity	(6,424)	5,101	(11,525)
Tax effect on the other actuarial profit/(loss) on staff benefit plans	585	(1,487)	2,072
Actuarial profit/(loss) on defined benefit pension plans net of tax effect	(5,839)	3,613	(9,452)
Total components of other comprehensive income, net of tax effect	(10,411)	12,424	(22,835)
Total comprehensive income/loss	296,766	297,123	(357)
Total comprehensive income (loss) attributable to:			
Group	272,932	282,895	(9,964)
Minority interests	23,834	14,228	9,607

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	31/12/2019	Of which with related parties	31/12/2018	Of which with related parties	Change
14	Tangible fixed assets	2,609,485		2,365,019		244,466
15	Real estate investments	2,431		2,489		(58)
16	Goodwill	182,902		149,886		33,016
17	Concessions	2,484,483		2,126,120		358,362
18	Intangible fixed assets	222,358		147,229		75,129
19	Right of use	63,397				63,397
20	Equity investments in unconsolidated subsidiaries and associates	268,039		279,085		(11,046)
21	Other equity investments	2,772		2,614		158
22	Deferred tax assets	237,693		227,362		10,332
23	Financial assets	47,202	26,144	55,831	30,847	(8,629)
24	Other assets	380,666		379,878		788
	NON-CURRENT ASSETS	6,501,429	26,144	5,735,514	30,847	765,915
25.a	Inventories	57,335		48,789		8,546
25.b	Trade receivables	1,035,462	99,798	927,834	83,982	107,628
25.c	Other current assets	212,956		252,888		(39,931)
25.d	Current tax assets	12,328		9,756		2,573
25.e	Current financial assets	299,212	121,968	113,960	86,644	185,252
25.f	Cash and cash equivalents	835,693		1,068,138		(232,445)
25	CURRENT ASSETS	2,452,987	221,766	2,421,364	170,626	31,622
	Non-current assets held for sale	0		183		(183)
	TOTAL ASSETS	8,954,416	247,910	8,157,061	201,473	797,354

Amounts in € thousand

Ref. Note	LIABILITIES	31/12/2019	Of which with related parties	31/12/2018	Of which with related parties	Change
	Shareholders' equity					
	Share capital	1,098,899		1,098,899		0
	Legal reserve	119,336		111,948		7,389
	Other reserves	(209,562)		(285,728)		76,166
	Retained earnings/(losses)	562,413		533,522		28,891
	Profit (loss) for the year	283,686		270,999		12,687
	Total Group shareholders' equity	1,854,772		1,729,638		125,133
	Minority interests	251,938		173,853		78,086
26	Total shareholders' equity	2,106,710		1,903,491		203,219
27	Employee severance indemnity and other defined-benefit plans	104,613		103,930		684
28	Provision for risks and charges	151,418		136,651		14,767
29	Borrowings and financial liabilities	3,551,889		3,374,134		177,754
30	Other liabilities	391,100		348,148		42,952
	NON-CURRENT LIABILITIES	4,199,020		3,962,864		236,156
31.a	Financial payables	674,364	79,616	408,675	627	265,689
31.b	Payables to suppliers	1,600,263	111,319	1,524,876	124,499	75,387
31.c	Tax payables	11,977		27,750		(15,773)
31.d	Other current liabilities	362,082		329,369		32,713
31	CURRENT LIABILITIES	2,648,685	190,935	2,290,670	125,126	358,016
	Liabilities directly associated with assets held for sale	0		37		(37)
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,954,416	190,935	8,157,061	125,126	797,354

Amounts in € thousand

CONSOLIDATED STATEMENT OF CASH FLOWS

Ref. Note	31/12/2019	Related parties	31/12/2018	Related parties	Change
	Cash flow from operating activities				
	430,390		409,033		21,357
8	409,557		366,839		42,718
6-7	22,862		18,428		4,434
28	5,268		(51,861)		57,129
27	(10,708)		(7,105)		(3,603)
	90,302		82,859		7,443
12	(132,617)		(79,145)		(53,471)
	815,054	0	739,048	0	76,006
	Financial flows generated by operating activities before changes				
25	(118,892)	(15,816)	98,720	(69,302)	(217,612)
31	41,729	(13,180)	(15,544)	(11,555)	57,273
25	(7,447)		(7,623)		176
	(84,610)	(28,997)	75,553	(80,858)	(160,163)
	Change in other assets/liabilities during the period				
	39,137		(89,910)		129,047
	769,581	(28,997)	724,690	(80,858)	44,891
	Cash flow from investment activities				
	(431,036)		(241,607)		(189,429)
	(361,740)		(375,276)		13,536
20-21	(43,703)		(5,570)		(38,133)
	(177,824)	(30,620)	116,038	(39,283)	(293,862)
	16,787	16,787	8,612	8,612	8,175
	20,588		20,643		(55)
	(976,928)	(13,833)	(477,160)	(30,671)	(499,769)
	Cash flow from financing activities				
29	(313,642)		(380,862)		67,220
29	500,000		1,000,000		(500,000)
29-31	(89,136)	78,989	(233,453)	(2,415)	144,317
	(109,302)		(108,340)		(962)
	(73,795)	(73,795)	(137,379)	(137,379)	63,583
	(85,875)	5,194	139,966	(139,793)	(225,842)
	(293,223)	(8,639)	387,497	(251,322)	(680,720)
	Net opening balance of cash and cash equivalents				
	1,068,138		680,641		387,497
	60,778		0		60,778
	835,693		1,068,138		(232,445)

Amounts in € thousand

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ thousand	Share capital	Legal reserve	Other reserves	Profit for the period	Total	Minority interests	Total shareholders' equity
Balances as at 31 December 2017	1,098,899	100,619	337,435	180,673	1,717,626	93,580	1,811,206
FTA reserve	0	0	(158,569)	0	(158,569)	(3,847)	(162,416)
Balance as at 1 January 2018	1,098,899	100,619	178,867	180,673	1,559,057	89,733	1,648,790
Income statement profit	0	0	0	270,999	270,999	13,700	284,699
Other comprehensive income (loss)	0	0	0	11,896	11,896	528	12,424
Total comprehensive income (loss)	0	0	0	282,895	282,895	14,228	297,123
Allocation of result for 2017	0	11,329	169,344	(180,673)	0	0	0
Distribution of dividends	0	0	(133,905)	0	(133,905)	(6,519)	(140,424)
Change in scope of consolidation	0	0	0	0	0	84,374	84,374
Other changes	0	0	21,591	0	21,591	(7,962)	13,629
Balance as at 31 December 2018	1,098,899	111,948	235,897	282,895	1,729,638	173,853	1,903,491

€ thousand	Share capital	Legal reserve	Other reserves	Profit for the period	Total	Minority interests	Total shareholders' equity
Balance as at 1 January 2019	1,098,899	111,948	235,897	282,895	1,729,638	173,853	1,903,491
Income statement profit	0	0	0	283,686	283,686	23,491	307,177
Other comprehensive income (loss)	0	0	0	(10,754)	(10,754)	344	(10,411)
Total comprehensive income (loss)	0	0	0	272,932	272,932	23,834	296,766
Allocation of result for 2018	0	7,389	275,506	(282,895)	0	0	0
Distribution of dividends	0	0	(150,909)	0	(150,909)	(7,990)	(158,899)
Change in scope of consolidation	0	0	3,736	0	3,736	62,736	66,472
Other changes	0	0	(625)	0	(625)	(495)	(1,120)
Balance as at 31 December 2019	1,098,899	119,336	363,605	272,932	1,854,772	251,938	2,106,710

NOTES TO THE CONSOLIDATED INCOME STATEMENT

CONSOLIDATED NET REVENUES

At 31 December 2019 this item amounted to € 3,186,136 thousand

(€ 3,028,487 thousand at 31 December 2018), recording an increase of € 157,649 thousand (+ 5.2%) from the previous year; they are broken down as follows:

€ thousand	2019	2018	Change	% Change
Revenue from sales and services	3,022,193	2,836,890	185,303	6.5%
Other revenue and proceeds	163,943	191,597	(27,654)	(14.4)%
Consolidated net revenues	3,186,136	3,028,487	157,649	5.2%

1. Revenue from sales and services – € 3,022,193 thousand

This item registered a total increase of € 185,303 thousand (6.5%)

compared to the previous financial year which closed with € 2,836,890 thousand. The composition of the item is shown below.

€ thousand	2019	2018	Change	% Change
Revenue from electricity sales and services	1,732,347	1,805,912	(73,565)	(4.1)%
Revenue from gas sales	93,399	73,600	19,800	26.9%
Revenue from electricity incentives	20,837	24,238	(3,401)	(14.0)%
Revenues from the integrated water system	932,867	712,392	220,475	30.9%
Revenue from overseas water services	46,514	36,148	10,366	28.7%
Revenue from biomass transfer and landfill operations	77,925	62,674	15,250	24.3%
Revenue from customer services	92,431	88,009	4,422	5.0%
Connection fees	25,873	33,916	(8,043)	(23.7)%
Revenue from sales and services	3,022,193	2,836,890	185,303	6.5%

REVENUE FROM ELECTRICITY SALES AND SERVICES

These are equal to € 1,732,347 thousand and are represented as follows:

€ thousand	2019	2018*	Change	% Change
Electricity and heat generation	9,077	8,775	302	3.4%
Electricity sales	1,352,615	1,443,201	(90,586)	(6.3)%
Transport and metering of energy	335,936	303,273	32,663	10.8%
Energy sales from WTE	24,265	45,265	(21,000)	(46.4)%
Energy from photovoltaic plants	5,728	1,018	4,710	n.s.
Co-generation	4,725	4,381	345	7.9%
Revenue from electricity sales and services	1,732,347	1,805,912	(73,565)	(4.1)%

* It should be noted that the 2018 comparison of the table includes reclassifications that are not significant for the purposes of a better presentation of the data.

The main changes concern:

- the decrease of € 90,586 thousand in revenues from the sale of electricity due to the effect of: the RCV review and the value recognised for the compensation mechanism for arrears envisaged in ARERA Resolution no. 706/2018 and partly due to the reduction in the number of customers served (- 7.0%) in the protected market, partially offset by an increase in energy sold on the free market (+ 20.5%) mainly linked to the B2B segment, also due to the greater number of customers;
- the increase in revenues from transport activities and the measurement of energy destined for the protected and free markets derives from the combined effect of the increase in the number of users and tariff parameters, as well as the contribution of the effects linked to the equalisation of previous years which generate higher revenues for areti of € 1,015 thousand; while the general equalisation amount shows a higher revenue of € 26,545 thousand for the Company;
- the increase in revenues for energy from photovoltaic plants is

€ 4,710 thousand due to the change in the scope of consolidation for the acquisition of photovoltaic companies during the second half of 2019;

- the decrease in revenues from the sale of electricity from WTE plants is mainly due to the expiry of the CIP6 regime in July 2019, and to a lesser extent to the combined effect of the change in market prices set by the electricity services operator for the “Cnord”, “Csud” and “CIP6” tariffs, compared to the same tariffs in 2018, and the change in the volume of energy placed on the market.

REVENUE FROM GAS SALES

Revenues equal € 93,399 thousand and show an increase of € 19,800 thousand compared to 31 December 2018 due to both the price effect and the quantity-sold effect, to final customers and wholesalers (+ 11,457 million m3 of gas compared to 2018).

REVENUE FROM ELECTRICITY INCENTIVES

These revenues amount to € 20,837 thousand and show a decrease of € 3,401 thousand compared to the previous year. These revenues refer to green certificates: 1) those of Acea Produzione (€ 10,958 thousand) in relation to the energy produced by the Salisano and Orte Station, 2) those of Acea Ambiente (€ 3,151 thousand) from revenue for green certificates deriving from an incentive system from renewable sources of the WTE plants in Terni and San Vittore del Lazio.

€ thousand	2019	2018	Change	% Change
Acea Ato 2	624,061	602,591	21,470	3.6%
Acea Ato 5	72,365	67,193	5,173	7.7%
Crea Gestioni	4,389	3,669	721	19.6%
Gesesa	12,809	10,753	2,056	19.1%
Gori	185,868	21,957	163,912	n.s.
Umbria2	7,698	6,229	1,469	23.6%
AdF	25,676	0	25,676	n.s.
Revenues from the Integrated Water System	932,867	712,392	220,475	30.9%

The increase is mainly due to the change in the scope of consolidation for a total of € 164,164 thousand with reference to Gori (whose line-by-line consolidation is from 8 November 2018) and AdF (whose line-by-line consolidation is from 8 October 2019).

The increase recorded by Acea Ato 2 (+ € 21,470 thousand) is mainly due to the tariff increase determined in accordance with ARERA Resolution 918/2017 following the two-year update of the 2018-2019 tariff arrangements (€ 22,327 thousand), and the increase of € 2,213 thousand deriving from the bonus for contractual quality awarded to Acea Ato 2 pursuant to art. 32, letter a) of Resolution 664/2015, gross of the compensation due to users.

REVENUES FROM THE INTEGRATED WATER SYSTEM

As mentioned in the paragraph to which reference is made for more detailed explanations, revenue from the Integrated Water Service is almost exclusively generated by the companies managing the service in Lazio and Campania. These revenues amounted to a total of € 932,867 thousand, up € 220,475 thousand (30.9%) compared with the previous year (€ 712,392 thousand). The table below provides detailed information on the breakdown by company:

REVENUE FROM INTERNATIONAL WATER SERVICES

These amount to € 46,514 thousand and show an increase of € 10,366 thousand compared to the previous year (€ 36,148 thousand as at 31 December 2018) resulting from the consolidation of the company Consorzio Servizio Sur for € 5,579 thousand, and € 4,379 thousand from increases relating to Aguas de San Pedro for operations.

REVENUE FROM BIOMASS TRANSFER AND LANDFILL OPERATIONS

These revenues amounted to € 77,925 thousand, up € 15,250 thousand compared to the previous year (€ 62,674 thousand). The breakdown by company is provided below:

€ thousand	2019	2018	Change	% Change
Acea Ambiente	54,725	47,661	7,064	14.8%
Aquaser	14,741	7,592	7,149	94.2%
ISECO	234	205	30	14.5%
Acque Industriali	4,618	7,217	(2,599)	(36.0)%
Bioecologia	3,607		3,607	n.s.
Revenue from biomass transfer and landfill operations	77,925	62,674	15,250	24.3%

In addition to the consolidation of Bioecologia (+ € 3,607 thousand), the performance in 2019 was mainly influenced by the following events:

- Acea Ambiente + € 7,064 thousand due to the combined effect of the reduction in the volumes of waste treated at the UL1, UL3, UL 4 lines and the increase in the tariff. On the other hand, the increase in volumes handled at the Sabaudia and Aprilia plants led to higher revenues;
- Aquaser + € 7,149 thousand, connected with the increase in the quantities treated;

- Acque Industriali - € 2,599 thousand due to lower revenues from liquid treatment because of lower volumes treated.

REVENUE FROM CUSTOMER SERVICES

These amounted to € 92,431 thousand (€ 88,009 thousand at 31 December 2018) and increased by € 4,422 thousand. The changes can be represented as follows:

€ thousand	2019	2018	Change	% Change
Public Lighting – Rome	40,631	42,444	(1,813)	(4.3)%
Work for third parties	38,134	34,260	3,875	11.3%

(follows)

€ thousand	2019	2018	Change	% Change
Inter-company services	4,769	7,089	(2,320)	(32.7)%
Photovoltaic	197	197	0	0.1%
GIP revenue	6,235	6,354	(119)	(1.9)%
RIB services to the Municipality of Rome	513	0	513	n.s.
Change in inventories	1,952	(2,334)	4,286	(183.6)%
Revenue from customer services	92,431	88,009	4,422	5.0%

The change is due to negative values, specifically:

- higher revenues relating to the change in the scope of consolidation for € 9,877 thousand;
- lower revenues recorded by the company Umbriadue for € 7,551 thousand, mainly in relation to the completion of work

on the project to build the new Scheggino-Pentima aqueduct (- € 7,735 thousand);

- an increase in the change in TWS inventories of € 3,547 thousand.
- With reference to the breakdown of this item, the table for the Industrial Segment compared with the figures as at 31 December 2018 is shown below.

€ thousand	2019	2018	Change	% Change
Environment	13,589	7,355	6,234	84.8%
Commercial and Trading	802	237	565	n.s.
Overseas	793	1,300	(507)	(39.0)%
Water	18,192	18,816	(624)	(3.3)%
Energy Infrastructure	49,341	51,239	(1,898)	(3.7)%
Engineering and Services	5,277	3,256	2,021	62.1%
Parent Company	4,437	5,807	(1,370)	(23.6)%
Revenue from customer services	92,431	88,009	4,422	5.0%

CONNECTION FEES

These amounted to € 25,873 thousand, recording a decrease of € 8,043 thousand compared to 31 December 2018. This change is mainly attributable to Acea Energia (- € 4,509 thousand) and areti (- € 3,493 thousand).

2. Other proceeds – € 163,943 thousand

This item decreased by € 27,654 thousand (-14.4%) compared to 31 December 2018, which closed with a total of € 191,597 thousand. The following table supplies the breakdown of said entry:

€ thousand	2019	2018	Change	% Change
Contributions from Entities for Energy Efficiency Certificates	22,947	41,009	(18,063)	(44.0)%
Non-recurring gains	80,334	98,171	(17,838)	(18.2)%
Other revenues	21,308	16,283	5,025	30.9%
Refunds for damages, penalties, collateral	5,089	6,157	(1,068)	(17.3)%
Feed-in tariff	4,925	4,443	482	10.9%
Government grant (Prime Ministerial Decree of 23/04/04)	4,445	4,373	72	1.6%
Regional grants	6,776	3,034	3,742	123.4%
Income from end users	2	(239)	241	(101.0)%
Seconded personnel	480	1,115	(636)	(57.0)%
Real estate income	2,099	1,907	192	10.1%
IFRIC 12 margin	14,795	14,558	237	1.6%
Gains on asset disposals	28	21	7	32.3%
Recharged cost for company officers	653	764	(111)	(14.6)%
Premiums for continuity of service	62		62	n.s.
Other revenue and proceeds	163,943	191,597	(27,654)	(14.4)%

The variation was primarily determined by the following off-setting effects:

- decrease in revenues for grants accrued on white certificates (TEE) in the portfolio, down by € 18,063 thousand compared to the same period of 2018, mainly related to areti. The same decrease can be seen in the costs for energy, gas and fuels. This re-

duction is a consequence of the lower purchases made compared to the previous year and due to the fact that these securities are no longer purchased on the market but virtually from the GME and therefore only the margin has been accounted for;

- lower out-of-period income for € 17,838 thousand, which refers to Acea Energia for € 14,983 thousand and mainly concerns ex-

traordinary items as well as the assessment of energy items from previous years; to Acea Ato 2 for € 10,925 thousand with reference mainly to the higher revenues recorded in 2018 for the reversal of payables for costs allocated in previous years; to Acea Produzione for € 4,217 thousand mainly due to the recognition in 2018 of compensation for damages following the settlement of a dispute arising from the illegal capture of the waters of the River Verde with the company SASI (€ 5,029 thousand). These effects were offset by the recognition in the Parent Company of the out-of-period income of € 16,200 thousand as a result of the de-

cision of the Regional Administrative Court which annulled the fine imposed by the Antitrust Authority served on 8 January 2019.

CONSOLIDATED OPERATING COSTS

As at 31 December 2019 these amounted to € 2,185,306 thousand (€ 2,138,560 thousand at 31 December 2018), recording an increase of € 46,746 thousand (+ 2.2%) compared to the previous year. The breakdown is as follows:

€ thousand	2019	2018	Change	% Change
Personnel costs	248,871	219,624	29,248	13.3%
Costs of materials and overheads	1,936,434	1,918,936	17,498	0.9%
Consolidated operating costs	2,185,306	2,138,560	46,746	2.2%

3. Personnel costs – € 248,871 thousand

€ thousand	2019	2018	Change	% Change
Staff costs including capitalised costs	398,605	342,566	56,039	16.4%
Costs capitalised	(149,734)	(122,942)	(26,792)	21.8%
Personnel costs	248,871	219,624	29,248	13.3%

The increase in labour costs, gross of capitalised costs, amounted to € 56,039 thousand and was mainly influenced by higher personnel costs recorded in the Water Segment (+ € 47,020 thousand, of which € 42,836 thousand related to the recent change in scope related to the companies Gore and AdF). There were also increases in the Environment Segment (+ € 2,192 thousand) and in the Commercial and Trading Segment (+ € 1,504 thousand).

With regard to capitalised costs, there was an increase of € 26,792 thousand primarily driven by the Water Segment (+ € 20,153 thousand). The increase stems from the efficiency of company processes to meet the greater commitment required by the management of the service and the need to renew corporate assets. The following tables show the average and actual number of staff by operating segment compared to same period of the previous year.

Average number of employees

	2019	2018	Change	% Change
Environment	389	360	29	8.1%
Commercial and Trading	470	464	5	1.1%
Overseas	814	781	33	4.3%
Water	3,094	2,551	543	21.3%
Lazio-Campania	2,642	2,506	136	5.4%
Tuscany-Umbria	394		394	n.s.
Other	59	45	14	30.0%
Energy Infrastructure	1,354	1,387	-33	(2.4)%
Distribution	1,277	1,309	-32	(2.5)%
Electricity generation	78	78	-1	(1.0)%
Public Lighting			0	n.s.
Engineering and Services	281	265	15	5.8%
Parent Company	668	663	5	0.8%
Total	7,070	6,471	599	9.3%

End-of-period composition

	31/12/2019	31/12/2018	Change	% Change
Environment	422	359	63	17.5%
Commercial and Trading	467	472	-5	(1.1)%
Overseas	1,202	797	405	50.8%
Water, Gas	3,174	2,599	575	22.1%
Lazio-Campania	2,720	2,554	166	6.5%

(follows)

	End-of-period composition			
	31/12/2019	31/12/2018	Change	% Change
Tuscany-Umbria	394		394	n.s.
Other	60	45	15	33.3%
Energy Infrastructure	1,353	1,379	-26	(1.9)%
Distribution	1,272	1,301	-29	(2.2)%
Electricity generation	81	78	3	3.8%
Public Lighting			0	n.s.
Engineering and Services	293	272	21	7.7%
Parent Company	665	656	9	1.4%
Total	7,576	6,534	1,042	0

4. Costs of materials and overheads – €1,936,434 thousand.

This item reported an overall increase of € 17,498 thousand

(+ 0.9% compared to 31 December 2018, which closed with a total of € 1,918,936 thousand).

€ thousand	2019	2018	Change	% Change
Electricity, gas and fuel	1,370,566	1,399,780	(29,214)	(2.1)%
Materials	58,674	46,626	12,048	25.8%
Services	343,566	264,085	79,481	30.1%
Concession fees	59,214	52,321	6,893	13.2%
Cost of leased assets	22,981	26,351	(3,369)	(12.8)%
Other operating costs	81,433	129,773	(48,340)	(37.2)%
Costs of materials and overheads	1,936,434	1,918,936	17,498	0.9%

ELECTRICITY, GAS AND FUEL COSTS

This item includes:

€ thousand	2019	2018	Change	% Change
Purchase of electricity	937,554	1,028,288	(90,734)	(8.8)%
Purchase of gas	86,657	69,001	17,656	25.6%
Transportation of electric energy and gas	319,837	258,744	61,093	23.6%
White certificates	20,881	40,123	(19,243)	(48.0)%
Green certificates and Co ₂ rights	5,638	3,624	2,014	55.6%
Electricity, gas and fuel costs	1,370,566	1,399,780	(29,214)	(2.1)%

The change is mainly due to: 1) lower costs linked to the supply of electricity, in line with the trend recorded in revenues, only partially offset by the higher costs of transport and energy measurement 2) higher costs incurred for the supply of gas deriving both from the price effect and from a quantity effect; 3) lower costs for energy certificates for € 19,243, in line with the trend recorded in revenues, under the item “Other income” to which reference should be made for more details.

MATERIALS

The cost of materials amounted to € 58,674 thousand and represents the cost of materials used net of capital expenditure, as shown in the table below.

€ thousand	2019	2018	Change	% Change
Purchase of materials	116,351	90,845	25,506	28.1%
Change in inventories	(6,169)	(10,624)	4,456	(41.9)%
Change in inventories	110,182	80,221	29,961	37.3%
Costs capitalised	(51,508)	(33,595)	(17,914)	53.3%
Materials	58,674	46,626	12,048	25.8%

Purchases of materials gross of inventories recorded an increase of € 25,056 thousand, mainly due to the Water Segment as a result of the change in the scope of consolidation, which contrib-

uted € 9,480 thousand. The remaining part refers mainly to Acea Ato 2 (+ € 11,308 thousand). The costs for materials incurred by the operating segments are detailed below.

SERVICES AND CONTRACT WORK

This item amounted to € 343,566 thousand, an overall increase

of € 79,481 thousand compared to € 264,085 thousand at 31 December 2018. For an analysis of the breakdown, please see the following table:

€ thousand	2019	2018	Change	% Change
Technical and Administrative Services (including consulting and collaborations)	58,729	48,984	9,745	19.9%
Contract work	57,056	49,809	7,247	14.5%
Disposal and transport of sludge, slag, ash and waste	52,261	39,738	12,523	31.5%
Other services	61,602	34,325	27,277	79.5%
Personnel services	17,750	14,298	3,452	24.1%
Insurance costs	10,080	8,253	1,828	22.1%
Electricity, water and gas consumption	29,439	17,023	12,415	72.9%
Internal use of electricity	6,159	6,808	(649)	(9.5)%
Intragroup services and otherwise	2,012	744	1,268	170.4%
Telephone and data transmission costs	5,802	5,165	637	12.3%
Postal expenses	3,641	4,010	(368)	(9.2)%
Maintenance fees	11,643	13,771	(2,128)	(15.5)%
Cleaning, transport and portage costs	4,308	3,592	716	19.9%
Advertising and sponsorship costs	10,826	7,094	3,732	52.6%
Corporate bodies	2,785	2,265	520	23.0%
Meter readings	4,024	4,308	(284)	(6.6)%
Bank charges	2,984	2,406	578	24.0%
Travel and accommodation expenses	2,123	1,611	512	31.8%
Seconded personnel	(6)	(310)	304	(98.0)%
Printing expenses	347	190	156	82.3%
Costs for services	343,566	264,085	79,481	30.1%

The change in the scope of consolidation increased by € 50,141 thousand, mainly in other services (+ € 20,703 thousand) and consumption (+ € 15,910 thousand). The remaining increase is mainly due to the costs incurred for disposal and transport of sludge in Aquaser (+ € 12,523 thousand); costs for contract works carried out in Acea Ato 2 and Acea Ato 5 (total + € 7,247 thousand) and the higher marketing and advertising costs of Acea Energia (+ € 1,548 thousand) linked to the new commercial campaign launched in June to support new commercial offers on the free electricity and gas market.

CONCESSION FEES

Concession fees totalled € 59,214 thousand (+ € 6,893 thousand compared to 31 December 2018) and referred to companies that manage Area Authorities under concession in Lazio and Campania.

The following table shows a breakdown of the fees by Company, compared to 2018.

€ thousand	2019	2018	Change	% Change
Acea Ato 2	49,005	47,530	1,475	3.1%
Acea Ato 5	3,685	3,705	(20)	(0.5)%
Gori	2,413	435	1,978	n.s.
Pescara Distribuzione Gas	2,275		2,275	n.s.
Gesesa	384	356	28	7.8%
AdF	1,133		1,133	n.s.
Other group companies	321	296	25	8.5%
Concession fees	59,214	52,321	6,893	13.2%

The increase mainly refers to the change in the scope of consolidation for a total of € 5,386 thousand. For other information regarding the concessions, reference should be made to the information in the specific section entitled "Service concession arrangements".

COST OF LEASED ASSETS

This item amounted to € 22,981 thousand, a decrease of € 3,369 thousand compared to last year (€ 26,351 thousand at 31 Decem-

ber 2018). The decrease is related to the application of the new IFRS 16 international standard from 1 January 2019, which generated lower costs of € 11,429 thousand. This effect is partially offset by

the hire rent related to the change in scope (+ € 4,719 thousand). The following table shows changes by Industrial Segment:

€ thousand	2019	2018	Change	% Change
Environment	933	1,297	(364)	(28.1)%
Commercial and Trading	509	473	36	7.5%
Overseas	3,019	2,423	596	24.6%
Water	8,232	5,893	2,339	39.7%
Energy Infrastructure	5,969	8,377	(2,407)	(28.7)%
Engineering and Services	388	671	(283)	(42.2)%
Parent Company	3,931	7,217	(3,286)	(45.5)%
Cost of leased assets	22,981	26,351	(3,369)	(12.8)%

In line with IFRS 16, this item contains costs relating to short-term leases and leases of modest value.

OTHER OPERATING COSTS

These amounted to € 81,433 thousand as at 31 December 2019 and decreased by € 48,340 thousand. The table below provides details of this item by type:

€ thousand	2019	2018	Change	% Change
Taxes and duties	14,761	28,137	(13,376)	(47.5)%
Damages and outlays for legal disputes	8,871	11,818	(2,947)	(24.9)%
Contributions paid and membership fees	4,593	3,491	1,103	31.6%
General expenses	15,230	13,596	1,634	12.0%
Contingent liabilities	37,978	72,731	(34,754)	(47.8)%
Other operating costs	81,433	129,773	(48,340)	(37.2)%

This decrease is mainly due to lower out-of-period expenses arising from the recognition of energy items from previous years relating to Acea Energia for € 26,439 thousand, which are offset by the recognition of out-of-period expenses of the same nature recorded under "Other income". The decrease is also due to the registration as at 31 December 2018 of the administrative fine of € 16,200 thousand imposed on the Acea Group by the Antitrust Authority.

5. Net Revenue/(Costs) from management of risk commodities – € 99 thousand

At 31 December 2019 these amount to € 99 thousand and represent the net balance of the valuations of derivatives taken out to hedge

Acea Energia's trading operations. It should be noted that as from 1 July 2018 the Company has been trading with the main energy carriers.

6. Income/(Costs) from equity investments of a non-financial nature – € 41,367 thousand

This item represents the consolidated result according to the equity method that is included among the EBITDA components of companies previously consolidated using the proportionate method. Jointly controlled investments are also included under this item, therefore from this year the result of the company S.I.I. S.c.p.a., which manages the water service in the province of Terni and is 25% owned by Umbriadue, was reclassified under this item.

The breakdown of this item is detailed below:

€ thousand	2019	2018	Change	% Change
EBITDA	144,057	161,364	(17,307)	(10.7)%
Amortisation, depreciation, impairment charges and provisions	(79,586)	(94,545)	14,959	(15.8)%
Financial items	(7,997)	(39)	(7,958)	n.s.
Total profit/(loss) on equity investments	(5)	(5,928)	5,923	(99.9)%
Taxes	(15,102)	(17,534)	2,432	(13.9)%
Income from equity investments of a non-financial nature	41,367	43,320	(1,953)	(4.5)%

The EBITDA of these companies decreased by € 1,953 thousand, mainly due to the change in the scope of consolidation. In fact last year Gori was consolidated using the equity method until November 8. This effect is partially offset by the reclassification of S.I.I.,

while on a like-for-like basis overall the EBITDA is in line with the previous year.

The companies' assessments are detailed below:

€ thousand	2019	2018	Change	% Change
Publiacqua	16,267	15,784	483	3.1%
Acque Group	12,301	13,863	(1,562)	(11.3%)
AdF	3,650	4,619	(968)	(21.0%)
Umbra Acque	2,142	1,147	994	86.7%
Gori	0	3,032	(3,032)	(100.0%)
Nuove Acque and Intesa Aretina	679	459	220	47.9%
Geal	1,182	982	200	20.4%
Ingegnerie Toscane	3,033	2,318	715	30.9%
Ecomed in liquidation	(2)	(6)	4	(65.0%)
Integrated Water Services	984	0	984	100.0%
AZUL	1,130	1,120	10	0.9%
Total	41,367	43,320	(1,953)	(4.5%)

7. Net write-downs (write-backs) of trade receivables – € 66,814 thousand

This item shows a decrease net of changes in the scope of consolidation (+ € 9,025 thousand) of € 17,291 thousand. The change is mainly attributable to areti (- € 12,501 thousand) as a result of the positive recognition of the effects deriving from the issue on

27/12/2019 of Resolution 568/2019/R/EEL, which provides for the recovery of the portion relating to network tariffs similar to the model for the recognition of uncollected general system charges and lower provisions for bad debts of Acea Energia (- € 9,712 thousand) following the improvement in collection performance. The breakdown by operating segment is provided below:

€ thousand	2019	2018	Change	% Change
Environment	45	87	(42)	(48.3%)
Commercial and Trading	29,089	35,820	(6,731)	(18.8%)
Overseas	4,143	2,302	1,841	80.0%
Water	39,888	29,643	10,246	34.6%
Energy Infrastructure	(9,245)	10,677	(19,922)	(186.6%)
Engineering and Services	145	104	41	39.7%
Parent Company	2,749	(3,553)	6,301	(177.4%)
Impairment charges and losses on receivables	66,814	75,080	(8,266)	(11.0%)

8. Depreciation, amortisation and provisions – €457,376 thousand

The item amortisation, depreciation and provisions increased by € 77,769 thousand compared to the previous year. The details are as follows:

AMORTISATION / DEPRECIATION OF INTANGIBLE AND TANGIBLE ASSETS AND WRITE-DOWNS

€ thousand	2019	2018	Change	% Change
Depreciation	147,276	135,103	12,173	9.0%
Amortisation	259,649	222,118	37,530	16.9%
Impairment charges	2,633	9,618	(6,985)	(72.6%)
Depreciation/amortisation	409,557	366,839	42,718	11.6%

The increase of € 42,718 thousand is mainly due to the increase in amortisation and depreciation. The change in the scope of consolidation resulted in increases in amortisation and depreciation for an amount of € 34,011 thousand, mainly attributable to Gori (+ € 20,702 thousand) and AdF (+ € 9,264 thousand). Also of note is the increase in amortisation and depreciation recorded by areti for € 12,782 thousand, in part due to the acceleration of depreciation of first generation electronic meters that will be replaced in the coming years according to the swap plan for the installation of second generation meters. Finally, of particular note is the reduction in amortisation and depreciation recorded by Acea Ato 2 for € 4,860 thousand. Finally, it should be noted that the item relating to intangible am-

ortisation includes the effect of the application of IFRS 16 amounting to € 10,747 thousand (for further details on this, see the section “Effects deriving from the introduction of new accounting standards”).

Impairment losses as at 31 December 2019 mainly refer to areti and mainly concern the write-down of assets not suitable for use and the residual write-down of meters; while impairment losses as at 31 December 2018 referred to the write-down of assets under construction by Acea Ato 2 for € 3,903 thousand, of a further share of the Acea Ambiente plant for € 1,337 thousand (specifically referred to Monterotondo) and € 1,400 thousand of the Cincittà Parchi di Ecogena plant following the Transaction Agreement signed with the counterparty on 27 December 2018.

PROVISIONS

Provisions as at 31 December 2019 net of releases amount to € 47,819 thousand and can be represented by nature as follows:

€ thousand	2019	2018	Change	% Change
Legal	4,376	2,618	1,757	67.1%
Taxes	721	5,381	(4,660)	(86.6)%
Regulatory risks	7,329	11,440	(4,111)	(35.9)%
Investees		1,000	(1,000)	(100.0)%
Contributory risks	417	284	133	46.8%
Insurance deductibles	2,993	2,488	505	20.3%
Concession fees			0	n.s.
Other risks and charges	4,203	12,644	(8,441)	(66.8)%
Total Provision for Risks	20,039	35,856	(15,817)	(44.1)%
Early retirements and redundancies	27,235	28,210	(975)	(3.5)%
Post mortem	17		17	n.s.
Liquidation charges		174	(174)	(100.0)%
Charges towards Others	6,937	1,671	5,265	n.s.
IFRIC 12 restoration charges		0	0	n.s.
Commitments from the Convention			0	n.s.
Total Provisions	54,227	65,910	(11,683)	(17.7)%
Release of Provisions	(6,408)	(53,142)	46,734	(87.9)%
Total	47,819	12,768	35,051	n.s.

The breakdown of provisions by Operating Segment are shown in the following table:

€ thousand	2019	2018	Change	% Change
Environment	1,273	(908)	2,181	n.s.
Commercial and Trading	(559)	11,763	(12,322)	(104.8)%
Overseas	50	97	(46)	(47.7)%
Water	17,082	14,535	2,547	17.5%
Energy Infrastructure	21,903	23,339	(1,436)	(6.2)%
Engineering and Services	757	816	(59)	(7.3)%
Parent Company	7,313	(36,873)	44,187	(119.8)%
Provisions	47,819	12,768	35,051	n.s.

The most significant allocations made in the financial year are appropriations for:

- retirement and redundancy fund (€ 27,235 thousand) and represent the sum necessary to handle the personnel reduction plan through the adoption of a voluntary redundancy and facilitated retirement programs for Group personnel;
- regulatory risks (€ 7,329 thousand) of which € 5,500 thousand relating to penalties for continuity of service and € 1,787 thousand relating to Acea Produzione;
- other risks of € 4,203 thousand mainly related to the provi-

sion made by Acea Energia for various legal disputes (€ 2,634 thousand);

- charges to others (€ 6,937 thousand) mainly attributable to Acea Ato 5 and relating to the provision of € 4,500 thousand for the reconciliation between Optimal Territorial Area Authority no. 5 Southern Lazio – Frosinone) and Acea Ato 5 SpA as investments to be made without any tariff recognition, to be borne entirely by the Operator.

9. Financial income – € 15,787 thousand

€ thousand	2019	2018	Change	% Change
Interest on financial receivables	5,559	4,699	861	18.3%
Bank interest income	162	214	(51)	(24.1)%
Interest on trade receivables	8,165	12,260	(4,094)	(33.4)%
Interest on other receivables	1,373	949	425	44.8%
Financial income from discounting to present value	546	754	(209)	(27.6)%
Financial income from measurement of fair value hedges	(308)	(1,348)	1,039	(77.1)%
Other income	289	311	(22)	(6.9)%
Financial income	15,787	17,838	(2,051)	(11.5)%

Financial income amounted to € 15,787 thousand, a decrease of € 2,051 thousand compared to the previous year. The change is mainly due to lower interest income issued to traders by areti (- €4,698 thousand) and lower interest on arrears on receivables

from customers registered by Acea Ato 2 (- € 2,632 thousand), offset by higher income from Gori (+ € 4,864 thousand).

10. Financial costs – € 106,089 thousand

€ thousand	2019	2018	Change	% Change
Costs (Income) on Interest Rate Swaps	5,213	2,090	3,123	149.4%
Interest on bonds	64,453	66,320	(1,867)	n.s.
Interest on medium/long-term borrowings	15,777	15,506	271	1.7%
Interest on short-term borrowings	1,605	595	1,010	169.7%
Default interest and interest on deferred payments	1,241	4,166	(2,925)	n.s.
Interest cost net of actuarial gains and losses	1,592	1,446	146	10.1%
Factoring fees	5,583	6,900	(1,316)	n.s.
Interest on payments by instalment	447	32	415	n.s.
Discounting charges	4,299	1,119	3,180	n.s.
IFRS 16 financial charges	2,018		2,018	n.s.
Other financial charges	2,754	1,145	1,609	140.6%
Interest payable to end users	1,031	1,223	(193)	n.s.
Foreign exchange gains (losses)	76	156	(80)	n.s.
Financial costs	106,089	100,697	5,392	5.4%

Financial costs amounted to € 106,089 thousand, up € 5,392 thousand compared to 31 December 2018. The average overall “All in” cost of the Acea Group’s debt at 31 December 2019 stood at 2.15% against 2.21% at the end of 2018.

With regard to financial costs related to borrowings, the following changes should be noted compared to 31 December 2018:

- compared to 31 December 2018, interest on bonds decreased by € 1,867 thousand due to the repayment in September 2018 of a € 600 million bond partially offset by the costs of new issues in May 2019;
- interest on arrears and deferrals decreased by € 2,925 thousand. The reduction is mainly attributable to the company areti (- € 2,616 thousand);

- commissions on receivables transferred decreased by € 1,316 thousand; The reduction is mainly attributable to Acea Ato 2 (- € 1,010 thousand) and Acea Energia (- € 506 thousand), partly offset by the increase in areti (+ € 191 thousand);
- discounting charges increased mainly due to the consolidation of Gori (+ € 3,180 thousand);
- the recording of financial charges from discounting relating to the first-time application of IFRS 16 for € 2,018 thousand (for further details on this, see the section “Effects deriving from the introduction of new accounting standards”).

11. Income and costs from Equity Investments – € 2,585 thousand

€ thousand	2019	2018	Change	% Change
Income from equity investments in associates	2,592	13,639	(11,047)	(81.0)%
(Costs) of shares in related companies	(7)	(306)	299	(97.6)%
(Costs) and revenue from shares	2,585	13,332	(10,748)	(80.6)%

Revenue from shares refers to consolidation according to the net worth method of some Group companies. The 2019 income refers to the company AguaAzul Bogotá, while the change is mainly due to income recorded in 2018 relating for € 8,902 thousand to the closure of the Business Combination related to the acquisition of the TWS Group, and for € 3,609 thousand to the effects resulting from the discounting of the rescheduling of the payable that the company Gori has towards the Campania Region.

12. Income Tax – € 123,213 thousand

Estimated tax expenses for the period were € 123,213 thousand compared to € 124,334 thousand in the previous year.

The breakdown is essentially as follows:

- Current taxes: € 123,694 thousand (€ 123,716 thousand as at 31 December 2018);
- Net deferred/(prepaid) taxes: - € 481 thousand (€ 618 thousand as at 31 December 2018).

The table below shows the breakdown of taxes and the correlated percentage weight calculated on consolidated profit before tax:

€ thousand	2019	%	2018	%
Profit before tax from continuing and discontinued operations	430,390		409,033	
Expected tax charge at 27.5% on profit before tax	103,294	24.0%	98,168	24.0%
Permanent differences	(14,050)	(3.3%)	(4,708)	(1.2%)
IRES for the period	89,243	20.7%	93,460	22.8%
IRAP (regional income tax)	33,970	7.9%	30,874	7.5%
Total taxes	123,213	28.6%	124,334	30.4%

The tax rate from the financial year is reported as 28.6% (it was 30.4% at 31 December 2018).

13. Earnings per share

Earnings per share are calculated by dividing profit for the year attributable to Acea by the weighted average number of Acea shares outstanding during the year, excluding treasury shares. The weighted average number of shares outstanding was € 212,548 as at 31 December 2019. Diluted profit per share is calculated dividing profit for the financial year attributable to Acea by the weighted

average number of Acea shares in circulation during the year, excluding treasury shares, increased by the number of shares which could potentially be put in circulation. At 31 December 2019 there were no shares that could potentially be put into circulation and, accordingly, the weighted average number of shares for the calculation of basic earnings per share coincides with the weighted average number of shares for the calculation of diluted earnings per share.

Earnings per share, determined in accordance with IAS 33, are shown below:

€ thousand	2019	2018	Change
Net profit attributable to the Group (€/000)	283,686	270,999	12,687
Net profit attributable to ordinary equity holders of the Group (€/000) (A)	283,686	270,999	12,687
Weighted average number of ordinary shares for the purpose of determining earnings per share			
basic (B)	212,964,900	212,964,900	0
basic (C)	212,964,900	212,964,900	0
Earnings per share (€)			
basic (A/B)	1.33208	1.27250	0.05957
diluted (A/C)	1.33208	1.27250	0.05957

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

At 31 December 2019 these amounted to € 8,954,416 thousand

(€ 8,157,061 thousand at 31 December 2018), recording an increase of € 797,354 thousand or 9.8% from the previous year; they are broken down as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Non-current fixed assets	6,501,429	5,735,514	765,915	13.4%
Current assets	2,452,987	2,421,364	31,622	1.3%
Non-current assets held for sale	0	183	(183)	(100.0%)
Total Assets	8,954,416	8,157,061	797,354	9.8%

14. Tangible fixed assets – € 2,609,485 thousand

81% of the tangible fixed assets comprise the net booking value of the infrastructures used for the distribution and generation of electricity (€ 2,123,928 thousand). The remaining 19% refer to:

- facilities belonging to the Environment Segment companies for € 251,808 thousand;
- infrastructures related to the Parent Company for € 95,005 thousand;

- infrastructures related to the Energy Segment for € 96,814 thousand;
- infrastructure related to the Overseas Segment for € 36,989 thousand.

The following table reports the details and transfers of material assets during the year.

€ thousand	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets under construction	Assets to be relinquished	Total tangible fixed assets
Historical cost 31/12/2018	508,373	2,968,339	851,033	141,305	60,897	9,301	4,539,249
Assets Destined for Sale	-	-	-	-	-	-	-
Investments/ Acquisitions	18,239	148,496	68,394	6,797	76,506	826	319,258
Disinvestments	(229)	(4,449)	(13,954)	(1,360)	(7,642)	-	(27,634)
Change in scope of consolidation	7,113	175,122	7,199	13,743	17,598	-	220,775
Other changes	15,010	22,190	5,573	1,750	(81,262)	(1,980)	(38,719)
Historical cost 31/12/2019	548,506	3,309,698	918,246	162,235	66,097	8,147	5,012,929
Accumulated depreciation at 31/12/2018	(151,125)	(1,631,643)	(272,809)	(110,166)	(2,300)	(6,186)	(2,174,229)
Assets Destined for Sale	-	-	-	-	-	-	-
Depreciation/ amortisation and impairment charges	(12,397)	(82,190)	(43,102)	(9,893)	176	(546)	(147,951)
Disinvestments	0	(247)	6,851	788	-	-	7,393
Change in scope of consolidation	(2,531)	(102,523)	(2,736)	(11,128)	-	-	(118,917)
Other changes	13,509	14,858	(3,266)	1,227	2,124	1,810	30,262
Accumulated depreciation at 31/12/2019	(152,544)	(1,801,744)	(315,062)	(129,172)	-	(4,921)	(2,403,444)
Net value 31/12/2019	395,961	1,507,954	603,184	33,063	66,097	3,225	2,609,485

Investments increased compared to last year (€ 248,912 thousand at 31 December 2018) and amounted to € 319,258 thousand. They refer mainly to those made by:

- **areti** for € 220,667 thousand for the renewal and upgrading

of the MV/LV network, the development of TSIE projects, as well as work on primary and secondary cabins and meters. During the year the so-called “Resilience Plan” was implemented, which consists of interventions on substations and on

the MV and LV networks. Investments for the year also include the acquisition of the operating headquarters in Via Flaminia for € 8,635 thousand;

- **Acea Ambiente** for € 47,930 thousand for investments concerning: 1) revamping works at the Monterotondo Marittimo and Aprilia composting plants, 2) work carried out at the Terni and San Vittore WTE plants, 3) work on the compost maturation and storage building in Orvieto;
- **Acea Produzione** for € 11,242 thousand, mainly for the plant revamping works at the Mandela hydroelectric power plant and the Tor di Valle and Montemartini thermoelectric plants, for the extension and refurbishment of the district heating network in the Mezzocammino district in the southern area of Rome and for the static functional upgrading of the tunnels deriving from the San Cosimato dam reservoir;
- **Agua de San Pedro** for € 6,372 thousand for the expansion and extraordinary maintenance of the water and sewerage networks of the areas managed;
- **Acea** for € 4,813 thousand for extraordinary maintenance works on the premises used for company activities and for hardware-related investments within the Acea2.0 project.

The contribution to the higher investments deriving from the change in the scope of consolidation amounts to € 16,684, in particular with reference to the photovoltaic companies (€ 5,999 thousand), Pescara Distribuzione Gas (€ 1,319 thousand) and the

consolidation of AdF (€ 3,922 thousand) and Gori (€ 6,546). Depreciation, amortisation and impairment includes write-downs of € 734 thousand made in Acea Ato 2 and areti.

The change in property, plant and equipment deriving from the companies included in the scope of consolidation during 2019 amounts to € 101,858 thousand and mainly concerns: 1) photovoltaic companies with a contribution of € 50,503 thousand, 2) AdF for € 29,563 thousand and 3) Pescara Distribuzione Gas for € 14,141 thousand.

Other changes refer to reclassifications due to the commissioning of assets under construction and disposals and disinvestments of assets.

15. Investment property – € 2,431 thousand

Investment property primarily includes land and buildings not used in operations and held for rental. The decrease of € 58 thousand compared to last year derives from the amortisations and depreciations.

16. Goodwill – € 182,902 thousand

At 31 December 2019 goodwill amounted to € 182,902 thousand (€ 149,886 thousand at 31 December 2018). The change compared to the previous year refers to the recognition of goodwill arising from the consolidation of the companies acquired during 2019 (for more information, please refer to the section on the Business Combination). Goodwill recognised as a result of business combinations is attributed to CGUs that benefit from the synergies deriving from the acquisition. The table below shows the goodwill per CGU aggregated according to the main activity of the companies.

€ thousand	31/12/2018	Acquisitions	Impairments/ Revaluations	Other changes	2019
Integrated water service management	0	0	-	-	0
Network Management	-	792	-	-	792
Sale of Electricity and Gas	46,982	-	-	-	46,982
Intercompany Services	125	-	-	(33)	93
Renewable energy plants	91,618	10,156	-	-	101,774
Waste-to-energy and Composting plants	11,138	-	-	-	11,138
Liquid Waste Treatment and Sludge Disposal	24	6,014	-	(4)	6,033
Water Services and Whey Powder Production	-	-	-	-	-
Overseas	-	-	-	-	-
Plastic recycling services	-	16,091	-	-	16,091
Goodwill	149,886	33,053	-	(37)	182,902

In order to verify the book value of the CGUs, as part of the impairment procedure the Group provides an estimate of an interval relating to the recoverable value of the assets in terms of value in use ("VIU"), in continuity with the previous year, i.e. using the Discounted Cash Flow (DCF) method, which identifies the ability to generate cash flows as the fundamental element for the purposes of assessing the entity of reference. For the purpose of discounting operating cash flows, the weighted average cost of post-tax capital is calculated.

The parameters used to estimate the discount rates are determined on the basis of baskets of comparable European companies and, for regulated activities, also referring to the parameters defined by ARERA to estimate WACC. Therefore, the application of the financial method for the determination of the recoverable value and the subsequent comparison with the respective carrying amounts provides an estimate of the following elements for each CGU: the value of the discount rates (WACC post-tax); the value of the operating flows; the value of the Terminal Value (TV) and, in particular, the growth rate (g) used for the projection of the flows beyond the Plan horizon.

The recoverable amount of the CGU is calculated as the sum of current value of Plan's cash flows and current Terminal Value. As regards the determination of the WACC, it is specified that for regulated businesses (Water and Electricity Distribution) the WACC used is determined by the regulator while for the Environment, Commercial and Trading segment business and for Production plants the WACC is calculated using the CAPM method.

For the purposes of determining the value of operating flows, the forecasts contained in the latest Business Plan approved by the Acea BoD are taken into account, if necessary updated by management to take account of regulatory and/or management changes that have occurred in the meantime. Specifically:

- the development of revenues for regulated businesses was drawn up on the basis of tariff trends resulting from national regulation and/or agreements with the regulatory authorities;
- the dynamics of the prices of electricity and gas sold and purchased on the free market were developed on the basis of business considerations consistent with the energy scenario developed in the business plan;

- the inertial evolution of the Group's costs over the course of the plan was developed by formulating hypotheses based on the set of information available at the time the plan was drawn up.

After the last year of the plan, normalised free cash flow equal to the value of the net operating margin of the plan years was considered. Following is a summary of the assumptions used in the tests:

	Recoverable value	WACC	Terminal value	Cash flow period
Integrated water service management	Value in use	5.24%	Estimated to be equal to the residual value as defined by the Regulator at the end of the concession.	The time horizon coincides with the end of the related Concessions.
Network Management	Value in use	5.87%	Estimated to be equal to the residual value as defined by the Regulator at the end of the concession.	Budget 2020 prepared by Acea Management.
Sale of Electricity and Gas	Value in use	6.17%	Estimated on the basis of a perpetuity in the absence of growth, a flow (determined as an average of the flows of the last 3 years of the plan).	Plans drawn up by the Commercial and Trading Segment that extend until 2022.
Intercompany Services	Value in use	5.2%	Estimated to be equal to the NIC of the plan's last year.	Based on company budgets and projections that represent the best available and achievable estimates of the main assumptions about the company's operations with respect to the equity investments examined and the expected results attributable to them.
Renewable energy plants	Value in use	4.81%	The terminal value is estimated to be equal to the NIC at the end of the plants' useful life. With regard to Acea Produzione, on the other hand, the terminal value of the plants is estimated to be equal to the NIC with the exception of perennial concessions for which the TV is estimated to be equal to the perpetuity of the normalised flow.	Based on company budgets and projections that represent the best available and achievable estimates of the main assumptions about the company's operations with respect to the equity investments examined and the expected results attributable to them.
Waste-to-energy and Composting plants	Value in use	5.30%	Estimated to be equal to the NIC at the end of the plants' useful life.	Budget 2020 prepared by Acea Management.
Liquid Waste Treatment and Sludge Disposal	Value in use	5.30%	Estimated to be equal to the NIC at the end of the plants' useful life.	Budget 2020 prepared by Acea Management.
Water Services and Whey Powder Production	Value in use	5.30%	Estimated to be equal to the NIC at the end of the plants' useful life.	Budget 2020 prepared by Acea Management.
Overseas	Value in use	11.95%	Estimated to be equal to the NIC of the plan's last year.	Based on company budgets and projections that represent the best available and achievable estimates of the main assumptions about the company's operations with respect to the equity investments examined and the expected results attributable to them.
Plastic recycling services	Value in use	5.30%	Estimated to be equal to the NIC at the end of the plants' useful life.	Budget 2020 prepared by Acea Management.

17. Concessions and Rights on Infrastructure – € 2,484,483 thousand

This item mainly refers to assets related to Water Management, in particular including:

- the values of concessions received from the Municipalities (€ 173,906 thousand);
- the overall amount of all tangible infrastructures for the management of water services (€ 2,315,184 thousand), in accordance with IFRIC 12.

Concessions refer for € 112,217 thousand to the thirty-year concession from Roma Capitale on the assets consisting of water and

sewage treatment facilities, and to the right arising from taking over the management of the integrated water service in the Municipality of Formello. Rights are amortised on the basis, respectively, of the remaining term of the concession signed between Acea and Roma Capitale and the term of the Management Agreement signed by the Mayors in Ato 2. Included is the balance of the 30-year comprehensive water management concession for San Pedro Sula in Honduras for a total amount of € 8,217 thousand. Capital expenditures for the period relating to **Infrastructure rights** amounted to € 357,932 thousand and refer to:

- Acea Ato 2 for € 277,727 thousand for the modernisation,

expansion and reclamation of the water and sewerage pipes of the various Municipalities; to the extraordinary maintenance of the water centres of the treatment plants and to the actions aimed at reducing water leaks;

- Acea Ato 5 for € 33,051 thousand for the replacement, maintenance and expansion of water supplies and sewerage pipes and investments in state property under concession;
- Gori for € 46,930 thousand for the extraordinary maintenance of the water, sewerage and purification network and for the expansion of the water pipelines.

The consolidation of AdF contributed € 7,194 thousand to the increase in investments.

The item **Other changes** mainly comprises reclassifications for the commissioning of the assets.

18. Intangible assets – € 222,358 thousand

The item has a net book value as at 31 December 2019 of € 222,358 and can be represented as follows:

€ thousand	Patent rights	Other intangible fixed assets	Fixed assets under construction	Total intangible fixed assets
31/12/2018	115,884	25,405	5,940	147,229
Depreciation/amortisation and impairment charges	(52,484)	(11,714)	(0)	(64,198)
Investments/acquisitions	36,633	25,898	53,055	115,586
Disinvestments	(797)	(2)	(474)	(1,273)
Change in scope of consolidation	2,113	21,801	3,141	27,055
Other changes	49,494	(19,632)	(31,902)	(2,040)
31/12/2019	150,843	41,756	29,759	222,358

The increase over the previous year, amounting to € 75,129 thousand, arises from capital expenditure incurred during the period (€ 115,586 thousand), net of amortisation and reductions in value (€ 64,198 thousand) and reclassifications.

Capital expenditures during the year totalled € 115,586 thousand and are mainly attributable to:

- areti for € 44,995 thousand for charges incurred for the re-engineering of the information and commercial distribution systems and for the harmonisation of systems to support measurement activities, with particular reference to technological innovations;
- Acea Energia for € 42,353 thousand, mainly for software related to the Acea 2.0 program, with particular reference to the development and evolution costs of software dedicated to user accounts;

- the Parent Company for € 16,362 thousand for the purchase and implementation of software to support the development of IT platform management systems, corporate security and administrative management.

19. Right of use – € 63,397 thousand

This item includes rights to use the assets of others, which as of 1 January 2019 are recognised as leased assets and amortised over the duration of the contracts following the application of the new IFRS 16 international standard (for further details, see the section “Effects of the introduction of new accounting standards”).

As at 31 December 2019 the net book value of these assets is € 63,397 thousand and the nature of these assets can be represented as follows:

€ thousand	31/12/2019
Land and buildings	48,655
Cars and motor vehicles	5,004
Machinery and equipment	7,345
Distribution cabins	2,175
Other	217
Total	63,397

The book value of the assets consisting of the right of use at the end of the financial year for each class of underlying asset and the related changes in the period are shown below:

	Land and buildings	Cars and Vehicles	Machinery and equipment	Distribution cabins	Other	Total
Balance at first application	45,520	5,591	0	2,330	237	53,679
New contracts	1,851	1,955	0	42	39	3,887
Increases for purchases	8,818	141	7,629	0	0	16,588
Depreciation/amortisation	(7,536)	(2,672)	(284)	(196)	(60)	(10,748)
Remeasurement	2	0	0	0	0	2
Derecognition	0	(11)	0	0	0	(11)
Total	48,655	5,005	7,345	2,176	217	63,397

With regard to extension or termination options, it should be noted that for regulated businesses, with regard to contracts relating to concession activities, the estimated term for contract renewals is the year of the end of the concession itself. There are also no guarantees on residual value, variable payments and leases not yet signed to which the Group has committed itself for a significant amount.

Finally, it should be noted that costs relating to short-term leases and assets of modest value are recognised in the income statement item “leases and rentals” in line with the requirements of IFRS 16 and in continuity with previous years.

20. Equity investments in associates – € 268,039 thousand

Company name	31/12/2018	Gains/ losses from valuation of shareholders' equity	Decrease for dividends	Currency translation differences	Changes with direct effect on shareholders' equity	Change in scope of consolidation	OCI	Other changes/ reclassifications	31/12/2019
Acque SpA	68,418	11,712	(2,687)	0	(1)	0	2,561	0	80,002
Acque servizi	4,425	589	(585)	0	0	0	(67)	0	4,362
AdF SpA	37,212	3,650	(2,400)	0	0	(38,462)	0	0	(0)
Consorzio Agua Azul SA	7,443	1,130	(1,249)	657	0	0	0	0	7,981
Ecomed Srl	0	(2)	0	0	0	0	0	2	0
Geal SpA	7,450	1,182	(672)	0	0	0	8	0	7,968
Intesa Aretina Scarl	1,586	(441)	(638)	0	0	0	0	0	507
Nuove acque	10,916	1,120	0	0	0	0	(49)	0	11,988
Publiacqua SpA	107,273	16,268	(7,200)	0	(625)	0	41	0	115,756
Integrated Water Services	7,062	984	0	0	0	0	0	0	8,046
Umbra Acque SpA	14,855	2,142	0	0	0	0	78	0	17,075
Ingegnerie Toscane	10,126	3,033	(1,935)	0	0	345	17	0	11,586
Other equity investments	2,319	2,585	(2,579)	67	0	446	0	(69)	2,769
Total equity investments	279,085	43,952	(19,945)	723	(626)	(37,671)	2,588	(67)	268,039

The main changes that occurred during the period refer primarily to the valuations of companies consolidated using the equity method, which have a positive impact on the Income Statement for a total of € 43,952 thousand. These valuations are reflected in the item “Income/(Costs) from equity investments of a non-financial nature” for € 41,367 thousand and in the item “Income/Costs from equity investments” for € 2,585 thousand; and to the decrease

for the distribution of dividends for a total of € 19,945 thousand. The change in the scope of consolidation (- € 38,462 thousand) refers to the full consolidation of the company AdF, previously consolidated using the equity method.

The income statement and balance sheet data of the main investees consolidated using the equity method are provided below:

2019	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Valuation of companies using the equity method	NFP
€ thousand							
AZUL	4,423	3,010	(78)	(174)	(3,409)	1,130	2,665
INTESA ARETINA	11,192	381		(518)	(266)	(441)	208
NUOVE ACQUE	18,432	6,003	(9,647)	(3,179)	(9,181)	1,120	(4,314)
ECOMED	3	374	(20)	(405)		(2)	163
GEAL	16,887	5,220	(9,535)	(4,139)	(9,647)	1,182	(3,957)
INGEGNERIE TOSCANE	4,924	13,321	(3,018)	(7,108)	(14,284)	3,033	(3,302)
ACQUE SER	1,438	6,912	(1,453)	(3,210)	(11,176)	589	(334)
ACQUE	209,790	44,095	(141,898)	(30,062)	(81,583)	11,712	(86,982)
PUBLIACQUA	208,127	56,114	(69,425)	(76,885)	(109,364)	16,268	(53,377)
INTEGRATED WATER SERVICE	22,260	11,638	(8,956)	(16,783)	(12,078)	984	(9,440)
UMBRA	63,065	13,372	(25,323)	(36,464)	(36,249)	2,142	(18,252)
Total	560,541	160,440	(269,347)	(178,928)	(287,237)	37,717	(176,922)

This table does not contain the Equity Valuation of AdF until 7 October 2019 (€ 3,650 thousand).

2018	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Valuation of companies using the equity method	NFP
€ thousand							
AZUL	4,743	2,537	(112)	(211)	(3,124)	1,120	2,198
INTESA ARETINA	10,232	396		(506)	(266)	(456)	223
NUOVE ACQUE	18,301	4,574	(9,232)	(2,726)	(9,002)	916	(4,546)
AZGA NORD			6				
ECOMED	3	375	(4)	(421)		(6)	165
FIORA	98,880	30,007	(72,854)	(22,316)	(46,341)	4,619	(38,805)
GEAL	15,672	5,057	(7,365)	(5,494)	(8,536)	982	(2,049)
INGEGNERIE TOSCANE	3,273	13,436	(543)	(9,263)	(11,734)	2,318	(3,782)
ACQUE SER	998	10,326	(1,580)	(5,993)	(12,273)	571	(399)
ACQUE	197,115	39,689	(53,320)	(114,640)	(77,191)	13,292	(78,043)
PUBLIACQUA	196,468	48,706	(79,615)	(57,132)	(102,814)	15,784	(39,828)
UMBRA	62,734	11,090	(31,142)	(30,503)	(33,468)	1,147	(14,969)
Total	608,419	166,194	(255,760)	(249,205)	(304,750)	40,287	(179,835)

This table does not contain Gori's Equity Valuation until 7 November 2018 (€ 3,032 thousand).

21. Other equity investments – € 2,772 thousand

These total € 2,772 thousand (they were € 2,614 thousand at the end of 2018) and are comprised of investments in shareholder securities which do not represent control, association or joint control.

22. Deferred tax assets – € 237,693 thousand

Deferred tax assets net of the deferred tax provision amounted to € 237,693 thousand as at 31 December 2019 (€ 227,362 thousand as at 31 December 2018) and are due to temporary differenc-

es between the book value and the fiscal value of assets and liabilities recorded in the financial statements. Specifically, this item is mainly made up of deferred taxes linked to the difference between the economic-technical depreciation rates applied to depreciable assets and the tax rates and deferred taxes linked to the non-deducted portion of the write-down of receivables and provisions for risks.

The table below details the changes in deferred tax assets and liabilities by type of time difference, determined on the basis of the tax rates provided by the measures in force:

€ thousand	2018	Changes in 2019					2019
	Balance	Changes in scope of consolidation	Adjustments/ Reclassifications	Changes in shareholders' equity	Uses	IRES/IRAP provisions	Balance
Prepaid taxes							
Tax losses	132	0	0	0	(225)	772	680
Remuneration of BoD members	16	0	0	0	(9)	13	20
Provisions for risks and charges	26,064	0	0	0	(13,932)	15,308	27,440
Impairments of receivables and equity investments	63,085	0	23,604	0	(12,791)	7,688	81,586
Depreciation/amortisation	122,899	(0)	3,884	(118)	(13,463)	12,724	125,925
Defined benefit and defined contribution plans	13,592	67	823	(111)	(1,365)	407	13,413
Tax assets on consolidation adjustments	5,955	0	(5,955)	0	0	0	0
Fair value commodities and other financial instruments	19,853	0	(11,752)	983	(518)	32	8,599
Others	61,456	9,482	(13,272)	(83)	(8,398)	6,996	56,182
Total	313,053	9,549	(2,667)	671	(50,700)	43,940	313,845
Deferred taxes							
Depreciation/amortisation	49,322	1	9,578	(51)	(12,827)	4,350	50,373
Defined benefit and defined contribution plans	(186)	0	895	(538)	(78)	623	717
Fair value commodities and other financial instruments	16,016	0	(11,143)	(1,709)	(196)	0	2,967
Others	20,539	456	249	(35)	(2,076)	2,962	22,095
Total	85,691	458	(421)	(2,333)	(15,177)	7,935	76,152
Net	227,362	9,091	(2,246)	3,004	(35,523)	36,005	237,693

The Group recognised deferred tax assets based on earnings forecasts in the Group's business plans, which confirm the probability that sufficient future taxable profit will be available against which all of the deferred tax assets recognised in the financial statements can be recovered.

23. Non-current financial assets – € 47,202 thousand

These amount to € 47,202 thousand (€ 55,831 thousand at 31 December 2018) and show a decrease of € 8,629 thousand due mainly to the change in receivables due from Roma Capitale for € 3,471 thousand, relating to new investments for the Public Lighting service, such as plant upgrading, energy savings, legislative adjustments and technological innovation, which will be paid to

Acea, for an amount equal to tax depreciation, after 2019, in compliance with the terms of the Supplementary Agreement to the service contract signed on 15 March 2011.

This item also includes the share of receivables arising from the application of the financial asset model envisaged by IFRIC 12 for the Parent Company regarding services under concession. This receivable represents the total investments made up to 31 December 2010 related to the service itself and at 31 December 2019 amounted to € 18,673 thousand, down by € 4,461 thousand.

24. Other non-current assets – € 380,666 thousand

At 31 December 2019, the breakdown was as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Receivables due from the State	92	92	0	n.s.
Advances and deposits	1,157	1,006	151	15.0%
Other receivables	394	366	28	7.5%
Long-term receivables for tariff adjustments	277,522	286,103	(8,581)	(3.0)%
Long-term receivables for Regulatory Lag	91,111	80,020	11,091	13.9%
Accrued income and prepayments	10,391	12,292	(1,901)	(15.5)%
Other non-current assets	380,666	379,878	788	0.2%

This item includes long-term receivables for tariff adjustments of € 277,522 thousand (€ 286,103 thousand as at 31 December 2018) from water companies, while € 91,111 thousand (€ 80,020 thousand as at 31 December 2018) are receivables recorded in

areti for regulatory lag, the increase being due to the effect of the increase in investments compared to the previous year.

25. Current assets – € 2,452,987 thousand

€ thousand	31/12/2019	31/12/2018	Change	% Change
Inventories	57,335	48,789	8,546	17.5%
Trade receivables:				
Receivables from customers	935,082	863,200	71,881	8.3%
Receivables from Parent Company	86,745	52,513	34,232	65.2%
Receivables from subsidiaries and associates	13,636	12,122	1,515	12.5%
TOTAL TRADE RECEIVABLES	1,035,462	927,834	107,628	11.6%
Other current receivables and assets	212,956	252,888	(39,931)	(15.8)%
Current financial assets	299,212	113,960	185,252	162.6%
Current tax assets	12,328	9,756	2,573	26.4%
Cash and cash equivalents	835,693	1,068,138	(232,445)	(21.8)%
Current assets	2,452,987	2,421,364	31,622	1.3%

25.a – Inventories

These amounted to € 57,335 thousand (€ 48,789 thousand at 31 December 2018); the breakdown by operating segment is as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Environment	5,935	5,608	328	5.8%
Commercial and Trading	300	401	(101)	(25.3)%
Overseas	1,336	945	391	41.4%
Water	16,615	9,217	7,398	80.3%
Energy Infrastructure	29,694	30,293	(600)	(2.0)%
Engineering and Services	3,454	2,325	1,130	48.6%
Parent Company	0	0	0	n.s.
Total	57,335	48,789	8,546	17.5%

The increase is essentially due to the increase in Acea Ato 2 (+ € 5,831 thousand), while the change in the scope of consolidation affected the increase of € 1,401 thousand, particularly with regard to AdF.

25.b – Trade receivables

These amounted to € 1,035,462 thousand, recording an increase of € 107,628 thousand compared to the previous year, when the figure was € 927,834 thousand.

€ thousand	31/12/2019	31/12/2018	Change	% Change
Trade receivables	935,082	863,200	71,881	8.3%
Amounts due from Roma Capitale	86,745	52,513	34,232	65.2%
Receivables from associates and joint ventures	13,636	12,122	1,515	12.5%
Current receivables	1,035,462	927,834	107,628	11.6%

Trade receivables

These total € 935,082 thousand, € 71,881 higher than 31 December 2018:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Receivables due from end users for bills issued	347,984	307,075	40,909	13.3%
Receivables due from end users for bills to be issued	445,000	411,299	33,702	8.2%
Total receivables due from end users	792,985	718,374	74,610	10.4%
Receivables from other customers	142,037	144,766	(2,729)	(1.9%)
Other current receivables and assets	60	60	0	0.0%
Total receivables	935,082	863,200	71,881	8.3%

Receivables are shown net of the Allowance for doubtful accounts which amounted to € 651,527 thousand as at 31 December 2019 and decreased by € 42,694 thousand due to the effect of uses for the period and lower provisions (see the note to the income state-

ment relating to “Net write-downs (write-backs) of trade receivables” for further details).

The performance of receivables, both gross and net of the provision for the impairment of receivables, is shown below.

€ million	31/12/2019			31/12/2018			Change		
	Gross receivables	Provision for write-downs	Net receivables	Gross receivables	Provision for write-downs	Net receivables	Gross receivables	Provision for write-downs	Net receivables
	(a)	(b)	(c)	(c)	(d)	(a)-(c)	(b)-(d)	(a)-(c)	(b)-(d)
Environment	63,378	(4,531)	58,847	56,240	(4,400)	51,840	7,139	(131)	7,008
Commercial and Trading	466,857	(279,803)	187,054	540,076	(323,686)	216,389	(73,218)	43,883	(29,335)
Overseas	19,905	(13,639)	6,266	16,458	(8,218)	8,240	3,447	(5,421)	(1,974)
Water	799,570	(268,259)	531,311	726,119	(267,947)	458,172	73,452	(312)	73,139
Energy Infrastructure	232,715	(83,332)	149,383	213,786	(87,891)	125,895	18,928	4,559	23,488
Engineering and Services	2,322	(909)	1,413	2,753	(918)	1,835	(431)	9	(422)
Parent Company	1,860	(1,053)	808	1,989	(1,160)	829	(129)	107	(21)
Total	1,586,608	(651,527)	935,082	1,557,421	(694,220)	863,200	29,188	42,694	71,881

Environment segment receivables

These totalled € 58,847 thousand, an increase of € 7,008 thousand compared to 31 December 2018. The increase is due for € 5,791 thousand to the consolidation of Berg and Demap and for the remaining part to the increase recorded in Bioecologia (+ € 1,185 thousand). During 2019, Acea Ambiente receivables were transferred without recourse for a total amount of € 6,271 thousand, all due from the Public Administration.

Commercial and Trading segment receivables

These amount to € 187,054 thousand and are mainly generated by the sale of electricity to customers in the protected and free market and by the sale of gas, with a decrease of € 29,335 thousand compared to 2018 due to improved collection performance. The provision for impairment of receivables at 31 December 2019 amounted to € 279,803 thousand, with a decrease net of uses of € 43,883 thousand compared to 31 December 2018. The reductions are the result of uses for the period and lower provisions due to improved collection performance.

During 2019, Acea Energia's receivables were assigned without recourse for a total amount of € 374,474 thousand.

Overseas segment receivables

These totalled € 6,266 thousand and decreased compared to 31 December 2018 mainly due to Aguas De San Pedro (- € 2,912 thousand).

Water segment receivables

These totalled € 531,311 thousand, recording an increase of € 73,139

thousand compared to 31 December 2018. The increase in receivables is due to the consolidation of AdF for € 39,882 thousand and Pescara Distribuzione Gas for € 2,970 thousand.

The write-down provision as at 31 December 2019 totalled € 268,259 thousand, substantially in line (+ € 312 thousand) with 31 December 2018. During 2019, the following receivables were assigned without recourse: 1) Acea Ato 2 for an amount of € 328,700 thousand, of which € 28,794 thousand from the Public Administration; 2) Acea Ato 5 for an amount of € 1,352 thousand entirely due from the Public Administration; 3) Gori for an amount of € 11,721 thousand due from the Public Administration; 4) AdF for an amount of € 451 thousand entirely due from the Public Administration.

Energy Infrastructure segment receivables

These amounted to € 149,383 thousand, an increase of € 23,488 thousand compared to 31 December 2018, of which € 16,379 thousand refers to areti due to the change in prices imposed by the Authority, in particular with reference to the Arim rate (remaining general system charges for LV, MV and HV users), which was set at zero in the third and fourth quarters of 2018, while it was revalued again in 2019. The change in the scope of consolidation resulting from the acquisition of the photovoltaic companies led to an increase in receivables of € 8,401 thousand.

The allowance for doubtful accounts as at 31 December 2019 totalled € 83,332 thousand and increased by € 4,559 thousand.

In 2019, areti receivables totalling € 647,584 thousand were transferred pro-soluto, € 149,454 thousand to the Public Administration.

Engineering and Services segment receivables

These totalled € 1,413 thousand, and the reduction of € 422 thousand compared to 31 December 2018 referred mainly to TWS.

Parent Company receivables

These amounted to a total of € 808 thousand and are in line with the balance as at 31 December 2018. The Provision for impairment of receivables also amounted to € 1,053 thousand, unchanged compared to the previous year.

Receivables from the Parent Company Roma Capitale

Trade receivables due from Roma Capitale totalled € 86,745

thousand at 31 December 2019 net of allowances for write-downs (€ 52,513 thousand at 31 December 2018).

The total amount of receivables net of allowances for write-downs (including short-term and medium/long term financial receivables resulting from the Public Lighting contract) was € 234,898 thousand compared to € 155,993 thousand at the end of 2018.

The following table presents an analysis of receivables and payables, including those of a financial nature, between Acea Group and Roma Capitale, as regards both net credit exposure and debt exposure, including financial items.

€ thousand	31/12/2019	31/12/2018	Change	% Change
RECEIVABLES	234,898	155,992	78,906	50.6%
PAYABLES (including dividends)	(201,239)	(108,063)	(93,176)	86.2%
Balance (Receivables – Payables)	33,660	47,929	(14,270)	(29.8)%

The following tables also provide a breakdown of Group receivables/payables due from/to Roma Capitale.

Amounts due from Roma Capitale

€ thousand	31/12/2019	31/12/2018	Change
Utility receivables	90,567	55,639	34,929
Provisions for write-downs	(9,343)	(9,315)	(28)
Total receivables from users	81,224	46,324	34,900
Receivables for water works and services	2,484	3,274	(790)
Receivables for water works and services to be invoiced	1,461	1,542	(82)
Contributions	0	0	0
Provisions for write-downs	(1,897)	(1,897)	0
Receivables for electrical works and services	3,799	3,596	203
Provisions for write-downs	(326)	(326)	(0)
Total receivables for works	5,520	6,189	(668)
Total trade receivables	86,745	52,513	34,232
Financial receivables for Public Lighting services billed	138,838	99,110	39,729
Provisions for write-downs	(30,152)	(30,152)	(0)
Financial receivables for Public Lighting services to be billed	39,201	25,669	13,532
Provisions for write-downs	(14,960)	(9,843)	(5,117)
M/L term financial receivables for Public Lighting services	15,227	18,697	(3,471)
Total Public Lighting receivables	148,154	103,481	44,673
Total Receivables	234,898	155,993	78,905

Payables due to Roma Capitale

€ thousand	31/12/2019	31/12/2018	Change
Electricity surtax payable	(15,251)	(15,252)	2
Concession fees payable	(96,412)	(79,839)	(16,573)
Other payables	(10,109)	(12,972)	2,863
Dividend payables	(79,468)	0	(79,468)
Total payables	(201,239)	(108,063)	(93,176)
Net balance receivables payables	33,660	47,930	(14,270)

The change in receivables and payables is due to the accrual of the period and the effects of compensations.

During the year the stock of trade receivables recorded growth of € 34,232 thousand compared to the previous year, mainly due to the increase in receivables for water accounts.

Financial receivables also grew € 44,673 thousand compared to the previous year due to the accrual during the period of receivables relative to the Public Lighting service agreement, to the modernisation of security, to extraordinary maintenance, to the LED plan agreement and to the works relating to the Public Lighting service.

Payables increased overall by a total of € 93,176 thousand.

The main changes are listed below:

- recognition of the payable for Acea's share dividends accrued in 2018 of € 77,114 thousand, as resolved by the Shareholders in April 2019;
- registration of the portion accrued in the year for the concession fee of Acea Ato 2 for € 25,054 thousand;
- inclusion of the debt for Acea Ato 2 shareholding dividends accrued in 2018 equal to € 2,354 thousand;
- reduction in payables relating to authorisations for excavations

defined as new road cables regulations for € 2,568 thousand;

- decrease in the Acea Ato 2 concession fee for 2016 for a total of € 8,480 thousand following payment through compensation.

Note that in April 2019 the subsidiary areti paid the Cosap for the current year worth € 1,426 thousand.

As described in the Consolidated Financial Statements as at 31 December 2018 as part of the activities required for the first consolidation of the Acea Group in the 2018 Financial Statements of Roma Capitale, a round table was launched to reconcile the Municipality's Receivables and Payables. After several meetings and communications, on 22 February 2019 the technical department of the Municipality in charge of the management of the contracts with the Acea Group communicated several objections relating to the supply of both works and services for the period 2008-2018. These objections were fully rejected by the Group.

On 26 February 2019 the General Management of the Municipality of Rome sent a communication stating that it had taken note of the objections raised by the technical department and the lack of recognition thereof by the Acea Group, and in order to find a complete resolution of the differences it proposed setting up a Joint Technical Committee with the Acea Group that could resolve the mutual claims.

Following several meetings, on 18 October 2019 the Joint Technical Committee drew up a report on the closure of the work, highlighting the results that emerged and proposing a favourable restart of the ordinary execution of the mutual obligations between the Acea Group and Roma Capitale.

As a first step after the completion of the work, the parties took steps to implement the results that emerged from the discussions, restarting the payment of their respective receivables and payables.

In particular, between December 2019 and February 2020 the

following offsets were made for a total of € 39,306 thousand; the types of receivables concerned are listed below:

- December 2019: receivables for € 7,177 thousand of water use for the years 2009-2014 in exchange for the Acea Ato 2 2016 concession fee;
- December 2019: receivables for € 1,304 thousand mainly for works for the completion of the water and sanitary network for 2009 and water service contract for 2018 in exchange for the Acea Ato 2 2016 concession fee;
- February 2020: receivables for Public Lighting for € 10,463 thousand referring to 2018 and 2016-2018 pro-rata amounts in exchange for Acea's share dividends for the year 2018;
- March 2020: receivables for € 20,362 thousand relating to water services for the years 2017-2018 in exchange for the Acea Ato 2 concession fee.

Also note that in December 2019 Roma Capitale approved its Consolidated Financial Statements, including for the first time the Acea Group in this scope of consolidation.

Trade receivables from associates and joint ventures

Trade receivables from associated and jointly controlled companies mainly refer to receivables from companies consolidated using the equity method. These receivables amount to a total of € 13,636 (+€ 1,515 thousand), and the increase is due to Umbriadue's higher receivables from S.I.I. for operational management work. The receivables from subsidiaries recorded in Acea were affected by the recognition of others arising from the allocation of costs incurred for the Acea2.0 programme and reflect the allocation of the investment in the joint venture.

25.c – Other current assets

€ thousand	31/12/2019	31/12/2018	Change	% Change
Receivables from others	192,957	225,142	(32,184)	(14.3)%
Accrued income and prepayments	19,999	19,196	803	4.2%
Payables arising from commodity derivatives	0	8,550	(8,550)	(100.0)%
Total	212,956	252,888	(39,931)	(15.8)%

Receivables from others

These totalled € 192,957 thousand, with a breakdown of the main contributing items as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Receivables due from the Equalisation Fund	31,681	54,147	(22,467)	(41.5)%
Receivables from Equalisation Fund for Tariff Contribution from cancellation	4,882	2,823	2,059	72.9%
Other receivables from Equalisation Fund	5,558	11,718	(6,160)	(52.6)%
Financial receivables from Trifoglio immobiliare	-	-	-	n.s.
Regional grants receivable	815	10,252	(9,437)	(92.0)%
Credits for Social Security contributions as per article 41, 2nd paragraph, letter A of Law 488/1999	-	-	-	n.s.
Receivables from Equitalia	110	96	14	14.0%
Security deposits	3,354	2,988	366	12.3%
Receivables from social security institutions	3,130	2,780	350	12.6%
Receivables from individual transfers	2,354	2,192	161	7.4%
Suppliers' advances	4,316	775	3,541	n.s.
Receivables due from Municipalities	11,553	11,589	(36)	(0.3)%
Receivables from Factor from the sale	(150)	62	(212)	n.s.
Receivables for accrued Green Certificates	4,301	9,438	(5,137)	(54.4)%
Receivables from AATO	-	-	-	n.s.
Receivables from staff	33	3	30	n.s.
Other receivables for Naples Public Lighting services	-	-	-	n.s.
Receivables for restitution of tariff restrictions	-	-	-	n.s.

(follows)

€ thousand	31/12/2019	31/12/2018	Change	% Change
Receivables for advances to employees	215	60	154	n.s.
Other Tax Receivables	33,024	31,640	1,383	4.4%
Other receivables	87,783	84,577	3,206	3.8%
Total	192,957	225,142	(32,184)	(14.3)%

The decrease of € 32,184 thousand is mainly due to the reduction in Acea Energia's receivables from the Compensation Fund for Energy and Environmental Services (- € 27,426 thousand) and lower receivables from Acea Ato 2 for regional contributions.

Accrued income and prepaid expenses

These amounted to € 19,999 thousand (€ 19,196 thousand at

31 December 2018) and refer mainly to connection contributions, state fees and insurance.

22.d – Current tax assets

These amounted to € 12,328 thousand (€ 9,756 thousand at 31 December 2018) and include IRAP and IRES receivables.

25.e – Current financial assets

€ thousand	31/12/2019	31/12/2018	Change	% Change
Financial receivables from the Parent Company	132,927	84,783	48,145	56.8%
Financial receivables from associates and joint ventures	2,518	2,306	212	9.2%
Financial receivables from third parties	163,766	26,871	136,895	n.s.
Total	299,212	113,960	185,252	162.6%

Financial receivables from the Parent Company Roma Capitale

These totalled € 132,927 thousand, recording a decrease of € 48,145 thousand compared to 31 December 2018. They represent the unconditional right to receive cash flows in line with the methods and timing envisaged in the service agreement for Public Lighting management. Further details are provided in the note "Receivables due from the Parent Company Roma Capitale".

Financial receivables from associates and joint ventures

These amount to € 2,518 thousand (€ 2,306 thousand as at 31 December 2018) and refer for € 1,895 thousand to the short-term portion of the loan for financing members registered in Umbriadue Servizi provided to the associated company S.l.l.

Financial receivables from third parties

These amounted to € 163,766 thousand (€ 26,871 thousand as at 31 December 2018) and are mainly broken down as follows:

- € 125,000 thousand recorded in Acea for the opening of a short-term deposit line with the Parent Company;
- € 10,700 thousand recorded in Acea Ato 5. This amount refers to the receivable from the Ato and accrued over three years; one-third of the above amount was due December 31 of each year,

with the first instalment due on 31 December 2007. The Settlement Agreement entered into by the Company and the Ato concerns the issue of higher operating costs incurred in the 2003-2005 period and provides for the recognition of higher costs net of sums relating to 1) the tariff portion – corresponding to amortisation/depreciation and return on inflated invested capital – relating to the investments set out in the Area Plan and not carried out in the first three-year period, 2) the portion of inflation accrued on concession fees and 3) fines for the non-fulfilment of contractual obligations in the three-year period. For further details on this subject, see the paragraph "Conciliation Board with AATO 5" in the section "Significant events for the 2019 financial year";

- € 5,040 thousand accrued for the management of the Public Lighting service;
- € 3,372 thousand recorded in Ecogena for finance leases issued for the cogeneration plants built.

25.f – Cash and cash equivalents

The balance at 31 December 2019 of bank current accounts and postal accounts, opened with the various banks and Post Offices by the consolidated companies amounted to € 835,693 thousand. The composition of the item is shown below:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Bank and postal deposits	823,742	1,064,117	(240,374)	(22.6)%
Cheques	1,280	1,375	(95)	(6.9)%
Cash and similar items of value on hand	10,671	2,646	8,025	n.s.
Total	835,693	1,068,138	(232,445)	(21.8)%

LIABILITIES

At 31 December 2019 these amounted to € 8,954,416 thousand

(€ 8,157,061 thousand at 31 December 2018), recording an increase of € 797,354 thousand (9.8%) over the previous year, and are broken down as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Shareholders' equity	2,106,710	1,903,491	203,219	10.7%
Non-current liabilities	4,199,020	3,962,864	236,156	6.0%
Current liabilities	2,648,685	2,290,670	358,016	15.6%
Liabilities directly associated with assets held for sale	0	37	(37)	(100.0)%
Total Liabilities	8,954,416	8,157,061	797,354	9.8%

26. Shareholders' equity – € 2,106,710 thousand

At 31 December 2019, shareholders' equity amounted to € 2,106,710 thousand (€ 1,903,491 thousand at 31 December 2018). Changes in shareholders' equity during the period are shown in the appropriate statement.

Share capital

This amounts to € 1,098,899 thousand, represented by 212,964,900 ordinary shares with a par value of € 5.16 each, as shown in the Shareholders' Register. The share capital is subscribed and paid-up in the following manner:

- **Roma Capitale: 108,611,150** ordinary shares with an overall par value of € 560,434 thousand;
- **Market: 103,936,757** shares for a total par value of € 536,314 thousand;
- **Treasury shares: 416,993** ordinary shares for a total par value of € 2,151 thousand.

Legal reserve

The legal reserve includes 5% of the profits from previous years, in accordance with article 2430 of the Italian Civil Code, and it refers to the legal reserve of the parent company amounting to € 119,336 thousand.

Other reserves and retained earnings

At 31 December 2019 this item amounted to € 352,851 thousand against € 247,793 thousand at 31 December 2018. The change of

€ 105,057 thousand is mainly due, in addition to the allocation of the profit from the previous year, to the: 1) distribution of dividends of the parent company for € 150,909 thousand equal to € 0.71 per share, 2) decrease in cash flow hedges of financial instruments and commodities for € 2,019 thousand, 3) decrease of € 6,424 thousand in actuarial gains and losses reserves, 4) decrease in the exchange rate reserve for € 5,299 thousand.

At 31 December 2019 Acea held 416,993 treasury shares to be used for future medium/long-term incentive schemes. At this time there are no medium/long-term share-based payment schemes planned.

Minority interests

These amounted to € 251,938 thousand, an increase of € 78,086 thousand. The difference between the two periods under comparison mainly reflects the change in the scope of consolidation, particularly AdF, and the combined effect of the portion of net profit attributable to minority interests and the decrease in shareholders' equity as a result of the distribution of dividends from net profit for 2018.

27. Employee severance indemnity and other defined benefit plans – € 104,613 thousand

At 31 December 2019, this item amounted to € 104,613 thousand (€ 103,930 thousand as at 31 December 2018) and represents termination and other benefits payable to employees on retirement or termination of employment.

The following table shows the change in actuarial liabilities during the year:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Benefits due at the time of termination of employment				
Employee severance indemnity	65,719	65,902	(182)	(0.3)%
Extra months	10,498	10,461	37	0.4%
Long-Term Incentive Plans (LTIP)	1,945	2,009	(64)	(3.2)%
Post-employment benefits				
Tariff subsidies	26,451	25,558	893	3.5%
Total	104,613	103,930	684	0.7%

In addition to the provision which, pursuant to the revised legislation on Termination Benefits, consists of the employee termination benefits accrued until 31 December 2006, the change reflects the revised discount rate used for the valuation according to IAS 19.

As required by paragraph 78 of IAS 19, the interest rate used to calculate the present value of the obligation was based on returns, at the end

of the reporting period, on securities of major companies listed on the same financial market as Acea, and on returns on government bonds in circulation at the same date that have terms to maturity similar to the residual term of the liability for the workforce in question.

As regards the economic and financial scenario, the following table shows the main parameters used for the evaluation.

	December 2019	December 2018
Discount Rate	0.77%	1.57%
Revenue growth rate (average)	1.59%	1.59%
Long-term inflation	1.00%	1.50%

With regard to the measurement of the Group Employee Benefits (Employee severance indemnity (TFR), Monthly bonuses, tariff subsidies for current and retired staff) a sensitivity analysis was per-

formed to assess the changes in the liability resulting from both positive and negative shifts of the rate curve (+0.5% shift /- 0.5% shift). The results of this analysis are summarised below.

Type of plan

€ million	+0,5%	-0,5%
Employee severance indemnities (TFR)	-3.5	+2.9
Tariff subsidies	-1.1	+1.2
Extra months	-0.5	+0.5

Furthermore, a sensitivity analysis was performed related to the age of the group, hypothesizing a group one year younger than the

actual one. Sensitivity analyses were not performed for other variables such as, for example, inflation rate.

Type of plan

€ million	-1 year of age
Employee severance indemnities (TFR)	-0.2
Tariff subsidies	-0.7
Extra months	0.4

28. Provisions for liabilities and charges – € 151,418 thousand

At 31 December 2019, the provision for risks and charges amounted to € 151,418 thousand (€ 136,651 thousand at 31 December 2018) and is allocated to hedge among other things probable liabilities that may derive from ongoing legal disputes, on the basis of that stated by internal and external lawyers, without considering those that could be successful and those that could be lost being assessed exclusively as possible.

When calculating the size of the provisions, account is taken both of the estimated costs that may derive from litigation or other disputes arising during the year and an update of estimates of the potential liabilities deriving from the litigation involving the Company in previous years.

The following table shows a breakdown of provisions and movements in the year:

€ million	31/12/2018	Uses	Provisions	Payment of Redundancy Funds	Reclassifications/ Other changes	31/12/2019
Legal	13,198	(1,121)	4,376	(2,113)	1,884	16,224
Taxes	10,728	(2,500)	721	313	64	9,326
Regulatory risks	26,556	(6,344)	7,329	(60)	82	27,563
Investees	7,732			0	(268)	7,464
Contributory risks	1,076	(55)	417		(33)	1,405
Insurance excess	9,580	(1,667)	2,993		(608)	10,297
Other risks and charges	23,461	(2,753)	4,203	(3,751)	4,053	25,212
Total Provision for Risks	92,332	(14,440)	20,039	(5,612)	5,173	97,492
Early retirements and redundancies	25,651	(24,501)	27,235	(789)	1,479	29,076
Post mortem	16,709		17		364	17,090
Provision for Settlement Charges	275	(174)		(8)	54	147
Provision for Charges of others	1,685	(1,343)	6,937		335	7,613
Total Provision for Charges	44,319	(26,018)	34,189	(796)	2,232	53,926
Total Provisions for Risks and Charges	136,651	(40,458)	54,227	(6,408)	7,406	151,418

For more details about the nature of the allocations please refer to note 8. Acea considers that the settlement of ongoing disputes and other potential disputes should not create any additional charges for Group companies, with respect to the amounts set aside, which represent the best estimate possible on the basis of el-

ements available as of today. For further information please refer to the section "Update on major disputes and litigation".

29. Non-current borrowings and financial liabilities – € 3,551,889 thousand

€ thousand	31/12/2019	31/12/2018	Change	% Change
Bonds	2,754,298	2,678,392	75,906	2.8%
Medium/long-term borrowings	745,913	695,743	50,170	7.2%
IFRS 16 financial payables	51,679	0	51,679	n.s.
Total	3,551,889	3,374,134	177,754	10.0%

The figures in the table include the fair value, at 31 December 2019, of hedging instruments entered into and certain Group

companies which are shown separately from the hedged instrument in the table below.

€ thousand	Hedged instrument	Derivative fair value	31/12/2019	Hedged instrument	Derivative fair value	31/12/2018
Bonds	2,736,444	17,853	2,754,298	2,656,605	21,787	2,678,392
Medium/long-term borrowings	740,361	5,551	745,913	693,682	2,061	695,743
Non-current borrowings and financial liabilities	3,476,806	23,405	3,500,210	3,350,287	23,848	3,374,134

BONDS

On 23 May 2019, Acea successfully completed the placement of a non-convertible bond for a total principal amount of € 500 million, maturing on 23 May 2028 and at a rate of 1.750%, under the € 3,000,000,000 Euro Medium Term Notes (EMTN) programme, with the Base Prospectus as last amended on 18 July 2018 and subsequently supplemented on 15 May 2019. It should be noted that following the update of the EMTN programme, specifically in July 2019, it was raised to € 4,000,000,000.

The bonds are governed by English law. Starting from the settlement date, the bonds are listed on the regulated market of the Luxembourg Stock Exchange, where the prospectus was filed.

The 10-year bond issued by Acea in March 2010, maturing on 16 March 2020, was reclassified as a short-term position. Its value (including the costs associated with the stipulation) is € 422,686 thousand. Interest accrued during the period amounted to € 15,126 thousand. This residual debt, after the purchase and cancellation of bonds for a nominal value of € 77,225 thousand on 24 October 2016.

Bonds amounted to € 2,754,298 thousand (€ 2,678,392 thousand at 31 December 2018) and refer to the following:

- **€ 596,678 thousand** (including the long-term portion of the contract related costs) relating to the 10-year fixed rate bond issued by Acea in July 2014, as part of the Euro Medium Term Notes (EMTN) programme of € 1.5 billion. The bonds, which have a minimum denomination of € 100,000 and expire on 15 July 2024, pay an annual gross coupon of 2.625% and were placed at an issue price of 99.195%. The effective gross yield at maturity is equal to 2.718%, corresponding to a yield of 128 basis points above the 10-year midswap rate. The bonds are governed by English law. The settlement date was 15 July 2014. Interest accrued during the period amounted to € 15,730 thousand;
- **€ 493,803 thousand** (including the long-term portion of the costs attached to the contract) relating to the bond issued by Acea in October 2016 for the EMTN programme for a total amount of € 500,000 with a 10-year fixed-rate duration. The bonds, which have a minimum denomination of € 100,000 and expire on 24 October 2026, pay an annual gross coupon of 1% and were placed at an issue price of 98.377%. The bonds are governed by English law. The settlement date was 24 October 2016. Interest accrued during the period amounted to € 4,997 thousand;
- € 164,164 thousand relating to the Private Placement which, net of the Fair Value of the hedge, a negative € 20,576 thou-

sand, amounted to **€ 182,017 thousand**. This fair value is allocated to a specific equity reserve. A suitable exchange reserve includes the exchange rate difference, a negative € 909 thousand, of the hedged instrument calculated on 31 December 2019. The exchange rate at the end of 2019 stood at € 121.77 against € 125.83 as at 31 December 2018. Interest accrued during the period amounted to € 4,156 thousand. This is a private bond (Private Placement) for an amount of 20 billion Japanese Yen with a maturity of 15 years (2025). The Private Placement was underwritten entirely by a single investor (AFLAC). Coupons are paid on a semi-annual basis every 3 March and 3 September applying a fixed rate in Yen of 2.5%. At the same time, a cross currency transaction was carried out to transform the Yen currency into Euro and the Yen rate applied in a fixed rate in Euro. The cross-currency transaction requires the bank to pay Acea, with a deferred semi-annual maturity, 2.5% out of 20 billion Japanese Yen, while Acea must pay the bank the coupons on a quarterly basis postponed to a fixed rate of 5.025%. The loan agreement and the hedging contract contain an option, respectively, for the investor and the agent bank, connected to the trigger rating: the debt and its derivative can be recalled in their entirety in the event that Acea's rating falls below the level of investment grade or in the event that the debt instrument loses its rating. At the end of the year the conditions for the possible exercise of the option did not occur;

- **€ 299,499 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February 2018 with a maturity of 5 years at a variable rate (Euribor 3 months +0.37%) under the EMTN programme. Interest accrued during the period amounted to € 110 thousand;
- **€ 688,987 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February 2018, with a fixed rate of 1.5% for the duration of 9.5 years under the EMTN programme. Interest accrued during the period amounted to € 10,484 thousand;
- **€ 493,315 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 23 May 2019, with a fixed rate of 1.75% for the duration of 9.5 years under the EMTN programme. Interest accrued during the period amounted to € 5,331 thousand.

The following is a summary of the bonds, including the short-term portion:

€ thousand	Gross Payables*	FV hedging instrument	Interest accrued**	Total
Bonds:				
Issued in 2010	422,686	0	15,126	437,812
Issued in 2014	595,817	0	7,316	603,133
Private Placement issued in 2014	164,147	17,853	655	182,655
Issued in 2016	492,773	0	943	493,715
Issued in 2018	986,631	0	5,939	992,570
Issued in 2019	492,471	0	5,331	497,802
Total	3,154,525	17,853	35,309	3,207,687

* Including amortised cost.

** Including rates on hedging instruments.

MEDIUM/LONG-TERM BORROWINGS (INCLUDING SHORT-TERM PORTIONS)

These totalled € 827,947 thousand (€ 1,016,921 thousand at 31 December 2018) and include: 1) debt for the principal portions of the instalments due beyond 12 months for € 745,912 thousand (€ 695,743 thousand as at 31 December 2018) including the

portion of fair value, negative for € 5,551 thousand, of derivative instruments taken out to hedge interest rate and exchange rate risk, 2) € 82,035 thousand (€ 321,178 thousand as at 31 December 2018) for the principal portions of the same loans falling due in the following 12 months.

The following table shows medium/long-term borrowings by maturity and type of interest rate:

€ thousand	Total Residual Debt	By 31/12/2020	from 31/12/2020 to 31/12/2024	After 31/12/2024
fixed rate	227,212	25,768	137,181	64,263
floating rate	583,053	47,933	288,545	246,574
floating rate cash flow hedge	17,682	8,333	9,349	0
Total borrowings	827,947	82,035	435,075	310,837

The fair value of hedging derivatives mainly derives from the Parent Company for a negative € 1,020 thousand and decreased compared to 31 December 2018 by € 1,041 thousand (it was negative for € 2,061 thousand), while the fair value resulting from the first consolidation of Adf was negative for € 4,141 thousand.

The Group's principal medium/long-term borrowings are subject to covenants to be complied with by the borrowing companies in accordance with normal international practices.

In particular, the loan taken out by areti is subject to a financial covenant expressed in the current agreement as a two decimal places ratio of 0.65 between net financial debt and the sum of net financial debt and shareholders' equity, which must not be exceeded at the end of each reporting period. This ratio must be complied with by both the borrowing company and the Acea Group. The ratio, calculated with the same criteria as the aforementioned agreement, has been complied with in 2018.

The loan agreements entered into by the Parent Company envisage:

- standard Negative Pledge and Acceleration Events clauses;
- clauses requiring compulsory credit rating monitoring by at least two major agencies;
- clauses requiring the company to maintain a credit rating above certain levels;

- the obligation to arrange insurance cover and maintain ownership, possession and usage of the works, plant and machinery financed by the loan through to the maturity date;
- periodic reporting requirements;
- clauses giving lenders the right to call in the loans on the occurrence of a certain event (i.e. serious errors in the documentation provided when negotiating the agreement, default on repayments, the suspension of payments), giving the bank the right to call in all or a part of the loan.

During the year there was no evidence that any of the covenants had not been complied with.

Information on the fair value of the above borrowings is provided in the section "Additional disclosures on financial instruments and risk management policies".

The table below shows the fair value of borrowings broken down by type of loan and interest rate as at 31 December 2019. The fair value of medium/long-term debt is calculated on the basis of the risk-free and the risk-adjusted interest rate curves. As regards the type of hedge for which the fair value is calculated and with reference to the hierarchies required by the IASB, given they are composite instruments, they are categorised as level 2 in the fair value hierarchy.

Bank Loans	Amortised cost (A)	FV RISK LESS (B)	Delta (A)-(B)	FV RISK ADJUSTED (C)	Delta (A)-(C)
€ thousand					
Bonds	3,207,687	3,504,722	(297,035)	3,301,189	(93,502)
fixed rate	227,212	280,938	(53,726)	268,384	(41,171)
floating rate	583,053	628,431	(45,378)	625,153	(42,100)
floating rate to fixed rate	17,682	17,840	(158)	17,687	(5)
Total	4,035,635	4,431,931	(396,296)	4,212,413	(176,778)

IFRS 16 FINANCIAL PAYABLES

This item includes the long-term portion of the financial debt deriving from the impact of the first-time adoption of IFRS 16 (for further details on this, see the section "Effects deriving from the in-

roduction of new accounting standards") amounting to € 52,240 thousand, of which the short-term portion is € 12,786 thousand.

The cash flows the Group is potentially exposed to are shown below, broken down by maturity date:

IFRS 16 liabilities	Within 12 months	Within 24 months	Within 5 years	Residual debt
	12,786	21,153	40,839	64,310

It should be noted that the debt is discounted using a risk-free rate with a maturity equal to the residual duration for each contract, plus the credit spread assigned to Acea by Moody's.

30. Other non-current liabilities – € 391,100 thousand

€ thousand	31/12/2019	31/12/2018	Change	% Change
Advances from end users and customers	159,609	146,229	13,380	9.1%
Water and electrical connection fees	82,271	75,462	6,808	9.0%
Capital grants	146,511	126,353	20,158	16.0%
Accrued liabilities and deferred income	2,709	104	2,605	n.s.
Total other liabilities	391,100	348,148	42,952	12.3%

ADVANCES FROM END USERS AND CUSTOMERS

This item includes: 1) the amount of the security deposits and consumption advances of the water companies and 2) the amount of the

deposits concerning the liabilities for advances on electricity consumption paid by the customers of the standard market and interest-bearing under the conditions envisaged by the rules of the ARERA (resolution no. 204/99). Details of this item are set out below:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Advances from users	9,242	1,483	7,759	n.s.
User guarantee deposits	149,329	144,094	5,234	3.6%
Advances from other customers	1,038	652	387	59.3%
Total	159,609	146,229	13,380	9.1%

The increase recorded mainly refers to the change in the scope of consolidation following the full consolidation of AdF for € 7,429 million and the consolidation of the new photovoltaic companies for € 5,360 thousand.

December 2018). The change for the period is mainly due to the consolidation of AdF (+ € 29,435 thousand).

These payments on behalf of plants registered in the liabilities annually are attributed by share to the profit and loss account in relation to the duration of the investment to which the issuance of the contribution is connected. The amount recognised as income is determined on the basis of the useful life of the asset to which it refers.

CAPITAL GRANTS AND WATER CONNECTION FEES

These totalled 228,782 thousand (201,815 thousand at 31 De-

31. Current liabilities – € 2,648,685 thousand

€ thousand	31/12/2019	31/12/2018	Change	% Change
Financial payables	674,364	408,675	265,689	65.0%
Trade payables	1,600,263	1,524,876	75,387	4.9%
Tax Payables	11,977	27,750	(15,773)	(56.8%)
Other current liabilities	362,082	329,369	32,713	9.9%
Current liabilities	2,648,685	2,290,670	358,016	15.6%

31.a Financial payables

€ thousand	31/12/2019	31/12/2018	Change	% Change
Payables to banks for short-term credit lines	6,526	4,549	1,977	43.5%
Payables due to banks for financing	82,035	321,178	(239,144)	(74.5)%
Short-term bonds	453,390	26,088	427,301	n.s.
Payables to the parent company Municipality of Rome	79,578	420	79,159	n.s.
Payables to subsidiaries and associates	596	596	0	n.s.
Payables to third parties	39,454	55,844	(16,391)	(29.4)%
IFRS 16 financial payables within one year	12,786		12,786	n.s.
Total	674,364	408,675	265,689	65.0%

Payables for short-term bank credit lines

These amount to € 6,526 thousand (€ 4,549 thousand at 31 December 2018) and show an increase of € 1,977 thousand, mainly attributable to the consolidation of Pescara distribuzione Gas.

Payables due to banks for financing

These amounted to € 82,035 thousand (€ 321,178 thousand at 31 December 2018), and refer to the current portion of bank loans falling due within twelve months. The decrease is attributable mainly to the repayment of the two financing lines of Intesa Sanpaolo and UBI

Banca maturing on 21 June and 2 January 2019 for a total of €250,000. Further details are provided in note 28 of these notes.

Short-term bonds

These amounted to € 453,390 thousand (€ 26,088 thousand at 31 December 2018). The increase in short-term bonds is due to the reclassification of the Parent Company's bond issue maturing on 16 March 2020.

IFRS 16 financial payables within one year

These payables represent the short-term portion of the financial debt as at 31 December 2019 recorded following the first application of the new IFRS 16 international standard. For additional information refer to note 29.

€ thousand	31/12/2019	31/12/2018	Change	% Change
Dividends payable to shareholders	539	130	409	n.s.
Financial liabilities due to factor	38,914	55,714	(16,800)	(30.2)%
Total	39,454	55,844	(16,391)	n.s.

Payables to third parties recorded a drop of €16,800 thousand, mainly due to the reduction in payables to factors for the sale of receivables.

31.b Trade payables

€ thousand	31/12/2019	31/12/2018	Change	% Change
Payables to suppliers	1,472,802	1,413,928	58,875	4.2%
Payables to the parent company	121,661	107,644	14,017	13.0%
Payables to subsidiaries and associates	5,800	3,305	2,495	75.5%
Trade payables	1,600,263	1,524,876	75,387	4.9%

PAYABLES TO THIRD-PARTY SUPPLIERS

Payables to suppliers amounted to € 1,472,802 thousand. The increase of € 58,875 thousand is mainly due to the change in the scope of consolidation for € 45,312 thousand, as follows:

- the consolidation of AdF contributed € 34,561 thousand to the increase;
- the new photovoltaic companies acquired in 2019 contributed € 5,064 thousand to the increase in this item;
- the consolidation of the companies of the environment segment Demap and Berg contributed respectively € 1,803 thousand and € 1,692 thousand;
- the consolidation of Pescara Distribuzione Gas contributed € 2,122 thousand.

Finally, other contributions included the increase recorded by Acea Ambiente (+ € 18,673 thousand), the Parent Company (+ € 11,949 thousand) and Gori (+ € 9,765 thousand), offset by the decreases recorded by areti (- € 17,191 thousand) and Acea Energia (- € 9,923 thousand). The Group has entered into factoring agreements, typically in the reverse factoring technical form. On the basis of the contractual structures in place the supplier has an option sell, at its discretion, the receivables from the company to a lending bank. In some cases, the payment deadline set in the invoice is further deferred by agreement between the supplier and the Group; these delays are granted against payment of a fee.

If the payment has been deferred, a quantitative analysis is performed aimed at verifying whether the change of contractual terms is material; this is made through a quantitative test in accordance with the provisions of IAS 39 AG62. In this context, the relationships for which the primary obligation with the supplier is main-

Payables to the Parent Company Roma Capitale

These amount to € 79,578 thousand (€ 420 thousand at 31 December 2018) and increased as a result of the dividends approved by the Parent Company and Acea Ato 2.

Payables to subsidiaries and associates

These amount to € 596 thousand and have not changed since the end of the previous year.

Payables to third parties

These amounted to € 39,454 thousand (€ 55,844 thousand at 31 December 2018). The item can be represented as follows:

tained and the deferral of the payment deadline, if granted, does not involve a substantial change in payment terms, retain their nature and are therefore classified as trade payables.

TRADE PAYABLES DUE TO THE PARENT COMPANY ROMA CAPITALE

These amounted to € 121,661 thousand and are commented on with the trade receivables in paragraph 25 of these notes.

TRADE PAYABLES TO SUBSIDIARIES AND ASSOCIATES

Payables to subsidiaries and associated companies include payables to companies consolidated using the equity method. The overall increase of € 2,495 thousand is due to the higher payables deriving from the consolidation of AdF for € 4,517 thousand. This change is partially offset by the decrease in the Parent Company's payables to Ingegnerie Toscane for - € 2,155 thousand.

31. c Tax payables

These amount to € 11,977 thousand (€ 27,750 thousand at 31 December 2018) and include the IRAP and IRES tax burden for the period.

31. d Other current liabilities

These are equal to € 362,082 thousand and are represented as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Payables to social security institutions	24,904	22,232	2,672	12.0%
Accrued liabilities and deferred income	28,688	31,407	(2,720)	(8.7%)
Other current liabilities	308,490	275,729	32,761	11.9%
Total	362,082	329,369	32,713	9.9%

Payables to social security institutions

These amounted to € 24,904 (€ 22,232 thousand at 31 December 2018); their breakdown by Segment is as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Environment	1,379	1,202	177	14.8%
Commercial and Trading	2,315	1,968	347	17.6%
Overseas	125	84	41	48.8%
Water	9,972	7,966	2,006	25.2%
Energy Infrastructure	6,629	6,572	58	0.9%
Engineering and Services	880	883	(3)	(0.4%)
Parent Company	3,605	3,559	46	1.3%
Total	24,904	22,232	2,672	12.0%

Accrued liabilities and deferred income

This item amounted to € 28,688 thousand (€ 31,407 thousand at 31 December 2018). The change is due to the decrease recorded by areti (- € 5,271 thousand), partly offset by the change in scope for € 1,867 thousand mainly for Pescara Distribuzione Gas.

Other current liabilities

These amounted to € 308,490 thousand, an increase of € 32,761 thousand compared to 31 December 2018.

The entry is made up as follows:

€ thousand	31/12/2019	31/12/2018	Change	% Change
Payables to Equalisation Fund	54,758	53,552	1,206	2.3%
Payables to Municipalities for concession fees	54,916	44,502	10,414	23.4%
Payables for collections subject to verification	15,022	7,430	7,592	102.2%
Payables due to personnel	51,147	47,474	3,674	7.7%
Other payables to Municipalities	30,236	31,024	(788)	(2.5%)
Payables to Equitalia	2,098	2,275	(177)	(7.8%)
Welfare contribution payables	(296)	(126)	(171)	135.8%
Payables for environmental premium art. 10 of ATI4 agreement of 13/08/2007	560	487	73	15.1%
Payables for purchase of surface rights	133	383	(250)	(65.2%)
Payables to end users for refund of Tariff Component as per referendum outcome	13	9	5	51.0%
Payables for the purchase of a business unit	0	1,156	(1,156)	(100.0%)
Other payables	99,902	87,564	12,338	14.1%
Other current liabilities	308,490	275,729	32,761	11.9%

The increase of € 32,761 thousand refers for € 27,621 thousand to the change in the scope of consolidation, in particular € 17,412 thousand relates to payables recorded in Acea Sun Capital attributable to some acquisitions of photovoltaic investments during the year.

The remaining change is explained by the following items with an opposite sign:

- + € 10,414 thousand for higher payables to Municipalities for

concession fees due to Acea Ato 2 (+ € 8,974 thousand) and Acea Ato 5 (+ € 2,600 thousand);

- + € 7,592 thousand for higher payables for collections subject to verification mainly attributable to Acea Energia (+ € 5,949 thousand);
- - € 16,200 thousand resulting from the registration last year of the fine imposed by the Antitrust Authority.

COMMITMENTS AND CONTINGENCIES

ENDORSEMENTS, SURETIES AND GUARANTEES

At 31 December 2019 they totalled € 385,590 thousand (€ 330,901 thousand at 31 December 2018) and showed an increase of € 54,689 thousand. The balance is made up of:

- € 90,749 thousand for guarantees in the interest of Acea Energia mainly for Terna, Eni Trading & Shipping, ERG Power Generation, ENGIE (EX EDF) and ASM Terni relating to the contract for the electricity transport and dispatching service;
- € 68,277 thousand for the Sole Purchaser and in the interests of Acea Energia as a back-to-back guarantee relating to the electricity sale agreement signed between the parties;
- € 53,666 thousand in the form of a guarantee issued by Acea to Cassa Depositi e Prestiti (the Deposit and Loans Account) in relation to refinancing of the loan issued to areti. This is a sole guarantee giving the lender first claim and covering all obligations linked to the original loan (€ 493 million). The sum of € 53,666 thousand refers to the guaranteed portion exceeding the loan originally disbursed (€ 439 million);
- € 30,756 thousand issued by insurance companies on behalf of Acea Ambiente in relation to waste collection plants (€ 7,138 thousand), waste collection plants with electricity production (€ 3,933 thousand) and to the Umbria region for the management of operational and post-operative activities of the landfill (€ 16,715 thousand);
- the guarantee of € 40,000 thousand in favour of Enel Trading in the interests of Acea Energia as a back-to-back guarantee on electrical energy trading transactions;
- the guarantee of € 25,000 thousand for Enel Trade in the interest of Acea Energia as a back-to-back guarantee on electricity and gas trading transactions;
- € 15,220 thousand for the guarantees issued for areti in favour of Terna relative to the electricity transmission service contract;
- € 2,701 thousand for the bank guarantee issued in favour of Roma Capitale in relation to the “Progetto Tecnologico” contract for the construction of the new multi-service pipe network of Via Tiburtina and adjacent streets, in the interest of areti;
- € 4,000 thousand relating to the bank guarantee issued for Rome Natura in connection with works to upgrade the network in the Marcigliana Reserve;
- € 3,712 thousand for the guarantee issued in favour of Italgas SpA in the interest of Acea Energia, renewed in October 2014;
- € 1,295 thousand relating to the bank guarantee issued by Banco Bilbao Vizcaya Argentaria in favour of the GSE for the correct fulfilment of the obligation for Acea Ambiente to make the reimbursement to the GSE;
- € 6,887 thousand relating to Acea Ato 5 and in particular to the surety envisaged by art. 31 of the Technical Specifications, issued by UNICREDIT to AATO, calculated on 10% of the three-year average of the Financial-Tariff Plan of the AATO Area Plan, which during 2019 was extended until 28 February 2023 and adjusted in the amount with a new issue for the difference;
- € 17,412 thousand for the issue of three guarantees to Belenergia and Casamassima on behalf of Acea Sun Capital for the purchase of the Special Purpose Vehicle;
- € 2,565 thousand for a surety to the Area Authority to guarantee the obligations deriving from the management of the Integrated Water Service of the subsidiary Gori SpA.

BUSINESS COMBINATION

ACQUISITION OF BIOECOLOGIA

On 29 November 2018 through Acea Ambiente the Group completed the acquisition of 100% of the share capital of Bioecologia

Srl from Siena Ambiente SpA. The company is engaged in the chemical-physical and biological treatment of non-hazardous liquid waste and purification of public sewerage. The value for the acquisition of the shareholding is equal to € 1,757.4 thousand.

Net Assets Acquired

€ thousand

	Fair value
Tangible Fixed Assets	553.7
Intangible Fixed Assets	3,105.1
Equity investments	1.6
Warehouse stock	46.6
Deferred taxes	0.0
Trade Receivables	638.9
Other credits	600.8
Financial credits	0.0
Cash and cash equivalents	300.6
Employee severance indemnity and other defined benefit plans	(194.5)
Costs and obligations fund	0.0
Current tax assets/liabilities	(38.6)
Trade payables	(955.7)
Other payables	(372.7)
Other financial liabilities	(1,917.6)
Payables to banks	(141.4)
Allocated goodwill	0.0
Net balance	1,626.7
attributable to third parties	0.0
Goodwill	130.6
Net value acquired	1,757.4

It should be noted that the values shown at the date of acquisition have been corrected in accordance with the Group's IAS/IFRS criteria and have not been subject to adjustment as they represent a good approximation of the book values. It should also be noted that at the valuation date the effects of the first-time adoption of the new international IFRS 16 standard applied from 1 January 2019 have already been included in the financial statements shown. When first applying this principle, the transition criterion chosen is retrospective b, therefore this application has no impact in terms of changes in Shareholders' Equity.

The value delta resulting from the difference between the transaction price and the net purchase balance was identified as the value to be allocated entirely to goodwill.

This transaction was accounted for using the acquisition method and the related results are definitive.

ACQUISITION OF PHOTOVOLTAIC COMPANIES

In the second half of 2019, through the newly formed Acea Sun Capital the Group completed the purchase of 13 companies operating in the renewable energy photovoltaic sector. In particular, 100% of the company KT4 was acquired on 27 June. During the months of July and August 65% of the following companies were acquired by Belenergia: Acquaviva, Compagnia Solare 2, Compagnia Solare 3, SPES, Solaria Real Estate, Brindisi Solar; on 26 September the acquisitions of Sisine Energia and Luna Energia were completed; on 10 October the purchase of Marche Solar was completed, on 12 November the companies Urbe Solar and Urbe Cerig were acquired and finally in December the purchase of Trinovolt was completed. The overall value for the acquisition of the shareholdings is equal to € 20,314 thousand.

€ thousand

Net Assets Acquired	14,086.7
attributable to third parties	(3,755.2)
Goodwill	9,982.7
Net value acquired	20,314.2

€ thousand

Net cash outflow for the acquisition	(20,314.2)
Cash and cash equivalents acquired	6,860.0
Repayment of financial payables	(6,376.2)
Payables to banks	(31,625.4)
Net cash flow	(51,455.9)

It should be noted that the values shown at the date of acquisition have been adjusted in accordance with the Group's IAS/IFRS criteria and the difference generated has been allocated to Goodwill pending final allocation. Initial analyses have shown that most of the difference can be attributed to the asset related to the right to receive the contribution granted by the GSE.

of Demap, a company operating in Piedmont in the field of plastics recycling, and on 18 October acquired 60% of Berg, a waste management company in the Municipality of Frosinone.

In addition, on 18 March 2019 the parent company Acea acquired 51% of Pescara Distribuzione Gas, a company that distributes and measures methane gas in the Municipality of Pescara.

ACQUISITION OF DEMAP, BERG AND PESCARA DISTRIBUZIONE GAS

The overall value for the acquisition of the shareholdings in the three companies is equal to € 50,226.4 thousand.

On 4 July 2019, through Acea Ambiente the Group acquired 90%

€ thousand	Pescara Distribuzione Gas	Demap	Berg
Net balance	6,860.3	4,158.1	1,856.1
<i>attributable to third parties</i>	(3,361.6)	(415.8)	(742.5)
Goodwill	791.6	16,090.7	24,989.3
Net value acquired	4,290.4	19,833.0	26,103.0
Net cash outflow for the acquisition	4,290.4	19,833.0	26,103.0
Cash and cash equivalents acquired	178.0	1,585.2	1,150.6
Repayment of financial payables	0.0	0.0	0.0
Payables to banks	(7,543.3)	(120.9)	(821.9)
Net cash flow	11,655.7	18,368.7	25,774.2

It should be noted that the values shown at the date of acquisition have been adjusted in accordance with the Group's IAS/IFRS criteria and the difference generated has been allocated to Goodwill pending final allocation.

company was consolidated on a line-by-line basis as from that date. Therefore, in application of international accounting standards, the acquisition of the equity investment held in Gori was simulated assuming the value of the transaction in order to comply with the Purchase Price Allocation required by IFRS 3.

ACQUISITION OF CONTROL OVER GORI

The Parent Company holds a 99.3% stake in the company Sarnese Vesuviano, which in turn holds a 37.05% stake in Gori SpA, the Integrated Water Service operator of the Sarnese Vesuvius District of Campania Ato 3. In this context, following the amendment made to the shareholders' agreements on 8 November 2018, which resulted in a change of control according to IFRS 10, the

While theoretically based on the various methods that can be used the transaction could have generated a higher value attributable to the concession, since this transaction did not involve any exchange of value between the parties and considering that the primary objective was to resolve the company's past litigation and foster a path that would guarantee continuity of service in the area managed, management considered it appropriate not to recognise any positive difference in value transferred between the parties (badwill).

Net Assets Acquired

€ thousand	Fair value
Tangible Fixed Assets	10,568.0
Intangible Fixed Assets	217,707.0
Equity investments	83.7
Warehouse stock	837.0
Deferred taxes	2,790.7
Trade Receivables	343,014.9

(follows)

Net Assets Acquired

€ thousand	Fair value
Other credits	70,797.2
Financial credits	2,020.8
Cash and cash equivalents	52,015.5
Employee severance indemnity and other defined benefit plans	(4,640.9)
Costs and obligations fund	(13,775.4)
Current tax assets/liabilities	296.1
Trade payables	(360,761.0)
Other payables	(170,237.6)
Other financial liabilities	0.0
Payables to banks	(21,286.9)
Allocated goodwill	0.0
Net balance	129,429.2
<i>attributable to third parties</i>	<i>(81,475.7)</i>
Goodwill	0.0
Net value acquired	47,953.5
Net cash outflow for the acquisition	0.0
Cash and cash equivalents acquired	52,015.5
Repayment of financial payables	0.0
Payables to banks	(21,286.9)
Net cash flow	30,728.5

Therefore this transaction did not generate differences to be allocated. These results are to be considered definitive.

ACQUISITION OF CONTROL OVER ADF

The Parent Company holds a 99.51% stake in Ombrone, which in turn holds a 40% stake in AdF, the operator of the Fiora Aqueduct

and of the Integrated Water Service of Ato 6 with effect from 01/01/2002. In this context, following the amendment made to the shareholders' agreements on 1 October 2019, which resulted in a change of control according to IFRS 10, the Company was consolidated on a line-by-line basis as from 7 October 2019. The transaction is currently being analysed in order to comply with the Purchase Price Allocation required by the IFRS 3 international accounting standard.

SERVICE CONCESSION ARRANGEMENTS

The Acea Group operates water, environmental and Public Lighting services under concession. It also manages the selection, treatment and disposal of urban waste produced in Municipalities in Ato 4 Ternano–Orvietano through Acea Ambiente.

As for the water segment, the Acea Group provides the **Integrated Water Service (IWS)** under a concession arrangement in the following regions:

- Lazio, where Acea Ato 2 SpA and Acea Ato 5 SpA provide services in the provinces of Rome and Frosinone, respectively;
- Campania where Gori SpA provides services in the area of the Sorrento Peninsula and Capri island, the Vesuvio area, the Monti Lattari Area, as well as in the hydrographic basin of the Sarno river;
- Tuscany, where the Acea Group operates in the province of Pisa, through Acque SpA, in the province of Florence, through Publicacqua SpA, in the provinces of Siena and Grosseto, through AdF SpA in the province of Arezzo through Nuove Acque SpA and in the province of Lucca and periphery through Geal SpA;
- Umbria where the Group operates in the province of Perugia through Umbra Acque SpA, and Terni through S.I.I. ScpA.

The Group is also in charge of several former CIPE services in the province of Benevento with Gesesa SpA and in the Municipalities of Termoli and Campagnano with Crea Gestioni SpA.

For additional information on the legislative and regulatory framework, please refer to the Report on Operations.

PUBLIC LIGHTING – ROME

The service is carried out by the Parent Company based on a deed of concession issued by Roma Capitale for a period of thirty years (from 1 January 1998). No fee was paid for this concession, which is implemented through a special service agreement, which given its concessionary nature, expires on the same date of the concession (2027).

The service agreement envisages, among other clauses, an annual update of the fee concerning consumption of electricity and maintenance and the annual increase of the lump-sum fee in relation to the new lighting installed.

Furthermore, the investments required for the service may be 1) applied for and funded by the Municipality or 2) financed by Acea. In the former case, such works will be paid based on a price list agreed by the parties (and subject to review every two years) and will result in a percentage decrease in the ordinary fee. In the latter case, the Municipality is not bound to pay a surcharge; however, Acea will be awarded all or part of the savings expected in both energy and economic terms according to pre-established methods.

Upon natural or early expiry – also due to cases envisaged under Decree Law no. 138/2011 – Acea will be awarded an allowance corresponding to the residual carrying amount, that will be paid by the Municipality or the incoming operator if this obligation is expressly set out in the call for tenders for the selection of the new operator.

Lastly, the contract sets out a list of events that represent a reason for advance revocation of the concession and/or termination of the contract by the will of the parties. Among these events, reference is made to newly arising needs linked with public interests, according to which Acea has the right to receive an allowance according to the product, that is discounted based on the percentage of the annual contractual amount and the number of years until expiry of the concession.

On the basis of the number of Public Lighting plants as at 31 De-

ember 2009, the supplemental agreement establishes the ordinary annual fee as € 39.6 million, including all costs relative to the provision of electricity to supply the plants, ordinary operations and ongoing and extraordinary maintenance.

In June 2016, Acea and Roma Capitale signed a private agreement aimed at regulating commitments and obligations arising from the implementation of the LED Plan and, consequently, amending article 2.1 of the Supplementary Agreement signed in 2011.

More specifically, the agreement provides for the installation of 186,879 fittings (which became 182,556 at the request of Roma Capitale), in the number of 10,000 per month starting thirty days after the signing of the agreement; the price was set at € 48.0 million for the entire LED Plan. 10% of the price will be paid in advance and the remaining part on the basis of specific bimonthly progress certificates, to be paid by Roma Capitale within thirty days following the closing of the progress certificate for 80%, and within fifteen days after verification of the same progress certificate for the remaining 15%. The agreement also provides for incentive/penalty mechanisms based on higher/lower than planned installations every two months and for a reduction of the fee paid by Roma Capitale to the extent of 50% of the economic value of Energy Efficiency bonds due to Acea for the LED Project.

As a result of the implementation of the LED Plan, the parties partially amended article 2.1 of the 2011 Supplementary Agreement with reference to the price list and the composition of the service management fee.

INTEGRATED WATER SERVICE

Lazio – Acea Ato 2 SpA (Ato 2 – Central Lazio – Rome)

Acea Ato 2 provides integrated water services on the basis of a thirty-year agreement signed on 6 August 2002 by the company and Rome Provincial Authority (representing the Authority for the Ato comprising 112 Municipalities, including Roma Capitale). In return for award of the concession, Acea Ato 2 pays a fee to all the Municipalities based on the date the related services are effectively acquired, which is expected to occur gradually: to date, the survey work (including that for Municipalities already taken over) has been completed for 96 Municipalities out of 112, equivalent to around 3,869,179 residents (source ISTAT 2011).

On 31 December 2019 the territory managed has not undergone changes compared to 31 December 2018.

With regard to the **tariffs**, it is known that the ARERA – in resolution 572 dated 13 November 2018 – approved the tariff update for 2018-2019 as proposed by the Conference of Mayors and the Presidents of the Provinces of Ato 2 Central Lazio; the essential contents are summarised below:

- the recognition of costs for the improvement of technical quality introduced by ARERA resolution 917/2017;
- the definitive recognition of the adjustment components of the charges connected to systemic changes relating to the management/maintenance of water kiosks and to the acquisition of new contracts after the postponement of the approval of the 2016-2017 tariff;
- the recognition of the OPsocial component introduced by ARERA Resolution 918/2017 to cover the charges deriving from the possible payment of the water bonus to disadvantaged users.

On 9 January 2019 Acea Ato 2 requested ARERA to warn the Conference of Mayors of Ato 2 against adopting the new tariff

structure not approved by the Conference of Mayors (of 15 October and 13 December 2018). The Authority determined the maximum values of the tariff multipliers, confirming the values of 2018 and 2019, substantially confirming those established before the update when approving the 2016-2017 tariff proposal, in particular:

- 1.000 for the year 2016;
- 1.048 for the year 2017;
- 1.107 for the year 2018;
- **1.171 for the year 2019.**

Pending the adoption of the new tariff structure, with effect from 1 January 2019 Acea Ato 2 applies the tariff increase of 5.96%, as approved by ARERA with resolution 674/2016, confirmed by resolution 572/2018.

Moreover, note the approval of the Implementation Regulations for the **2019 supplementary water bonus** of Ato 2 Central Lazio – Rome by resolution no. 2-19 of the Conference of Mayors of 15 April 2019”. Those entitled are direct users (holders of a resident household account) and indirect users (household users in an apartment complex).

With reference to the other significant elements that emerged, it should also be noted that at the Conference of Mayors held on 24 July 2019 the new Ato 2 Central Lazio - Rome user regulations were approved. In this document, ARERA provisions considered particularly relevant to the regulation of the IWS were incorporated, including those concerning technical quality, contractual quality, social water bonus and measure. At the same Conference of Mayors, in agreement with the operator Acea Ato 2 the OTS was asked to update both the User Regulations and the Integrated Water Service Charter in order to bring the texts into line with the provisions contained in the very recent ARERA resolution no. 311/2019 on arrears.

Finally, with resolution no. 4/2019 approved by the Conference of Mayors at its meeting of 11 November 2019, the new tariff structure defined in application of ARERA resolution no. 665/2017/R/idr (TICSI) was approved. The application will start in March 2020. On the basis of ARERA Resolution 572/2018, the revenue for the period amounting to € 593.3 million was valorised. This includes the estimate of the adjustments of passing items, the FoNI component (€ 28.9 million) and the bonus due to the Operator for achieving the improvement standards compared to that envisaged by the ARERA in Resolution 655/2015 (€ 35.9 million including customer indemnities). The bonus accrued during the period represents the best estimate made on the basis of the effective measurement of the performance level and the expected level.

Lazio – Acea Ato 5 SpA (Ato 5 – Southern Lazio – Frosinone)

Acea Ato 5 provides integrated water services on the basis of a

30-year agreement signed on 27 June 2003 by the Company and Frosinone Provincial Authority (representing the Authority for the Ato comprising 86 Municipalities). In return for being awarded the concession, Acea Ato 5 pays a fee to all the Municipalities based on the date the related services are effectively acquired.

The management of the integrated water service in the territory of Ato 5 – Southern Lazio-Frosinone involves a total of 86 Municipalities for a total population of around 490,000 inhabitants, about 469,836 inhabitants supplied and a number of end users equal to around 199,823.

To date the completion of said process has not occurred for the Municipalities of Paliano. Below is a description of the main events during the period:

Municipality of Paliano: in November 2018 the Council of State finally decided on the appeal filed by the Municipality of Paliano against the decision of the Regional Administrative Court no. 6/2018 – which upheld the appeal filed by the Company against the Municipality of Paliano, in order to obtain the annulment of the measure by which the Municipality opposed its refusal to transfer the service – with decision no. 6635/2018 rejected the appeal filed by the Municipality of Paliano and consequently upheld the decision handed down by the Regional Administrative Court of Latina, reaffirming that the safeguard regime granted to AMEA was “limited to a period of three years from the date of signing of the Management Agreement between AATO 5 and Acea Ato 5; this deadline therefore expired in 2006, so that, after that date, AMEA’s management was to be considered without title”.

Since Acea Ato 5 has so far failed to initiate compliance proceedings with a view to verifying the voluntary compliance of the Municipality, which is suitable for preventing the possible appointment of an acting commissioner as has already happened in similar cases, a series of meetings have taken place at the Operational Technical Secretariat of AATO 5 Lazio Meridionale – Frosinone aimed at seeking an amicable settlement of the dispute and at initiating the preparatory activities for the transfer to Acea Ato 5 of the management of the IWS in the Municipality of Paliano. In this perspective, the Parties – with minutes of 26 November 2018 and 29 November 2018 – performed the update of the previous survey of networks and existing plants in the Municipality of Paliano, necessary for the management of the IWS.

To date, the parties are sharing the IWS handover report, which should also result in the waiver of pending litigation between them.

With reference to the **tariffs**, as is known, in the session of 1 August 2018 the Mayors’ Conference approved among other things the 2018-2019 tariff update and the following multipliers.

2016	2017	2018	2019
1.080	1.166	1.260	1.360

The basic contents are summarised below:

- confirmation of the valorisation of the FNI component on the basis of the parameter ψ of 0.4;
- recognition of a default rate of 6.93% in partial acceptance (instead of 7.1%) of the grounded request presented by the Company;
- recognition of the $Opex_{qc}$ component for the improvement of contractual quality levels;
- recalculation of the values of the VRG (restriction on the admissible revenues) relating to the period from 2012 to 2017 following the ARERA prescriptions defined with Determination DSAI/42/2018/IDR.

On the basis of the tariff update approved by the Conference of Mayors on 1 August 2018, the revenues for the period have been

quantified and amount to € 76.9 million including the estimate of the adjustment of passing items and the FoNI component € of 10.4 million. Tariff adjustments amount to € 97.3 million based on the recalculation carried out as a result of the credit adjustment for bills to be issued to users after the audit carried out by ARERA for the years 2012-2017 and the subsequent tariff update of 1 August 2018 by the AGB.

With regard to **relations with AATO 5**, the Company has tried to reach a settlement of the various disputes pending against the Area Authority, convinced of the need to put an end to a very long season of clear conflict between the Granting Body and the Licensee Company, culminating with the resolution passed by the Conference of Mayors of Ato 5 aimed at the termination of the Management

Agreement that forced the Company to appeal to the Latina Regional Administrative Court that annulled the above resolution. In this context, in recent years and especially during 2018 an enormous effort has been made – including organisational efforts – to reconstruct the relations between the Company, the Area Authority and the individual Municipal Administrations of Ato 5.

Similarly, the possibility of establishing a Conciliation Board with the Area Authority has therefore become concrete, with the aim of settling the main issues still in dispute by the parties.

In this regard, on 11 September 2018 AATO 5 and the Company signed report no. 1 in which the parties expressed their mutual willingness to open a Conciliation Board on:

- case pending before the Court of Frosinone, docket no. 1598/2012 on concession fees 2006-2011. This question consists in ascertaining that the concession fees for the period 2006-2011 have been paid in full: while Acea Ato 5 claims to have paid the entire amount due, the Area Authority claims that it is still owed more (€ 1,751,437.89). The dispute is the subject of a case pending before the Court of Frosinone;
- verification of the actual use of the sums paid by Acea Ato 5 to the Area Authority as a fee pursuant to art. 13 of the Integrated Water Service Management Agreement. In the meantime this matter has been substantially settled by the parties, given the recalculation of the concession fee;
- settlement of the dispute related to the 2007 transaction, which is the subject of judgement no. 304/2017 of the Court of Frosinone, appealed by Acea Ato 5 to the Rome Court of Appeal (docket no. 6227/2017). The first hearing of the appeal proceedings is scheduled for 20 November 2020, and Acea Ato 5 – even though it considered the above sentence to be incorrect and therefore appealed it – nevertheless pointed out that Acea Ato 5 did not in any way deny the existence of the receivable claimed by the Manager and therefore claims the right to recover the receivable itself, also fearing further initiatives to protect the interests of the Company. The Operational Technical Secretariat has expressed its willingness to ask the Conciliation Board to study the Manager’s claim, even from a legal point of view;
- damage suffered by Acea Ato 5 as a result of delays in the delivery of services by the Municipalities of Cassino, Atina and Paliano;
- handover of the ASI and Cosilam plants;
- penalties applied by AATO 5 against the Manager and annulled by the Latina Administrative Court by judgement no. 638/2017;
- interest for late payment of concession fees by Acea Ato 5;
- reconstruction of the 2012/2018 concession fees and request for the Operator’s repayment plan to the Area Authority for the debt positions relating to the concession fee.

Two other issues were then referred for the assessment of the Board concerning the discounting of the 2006/2011 adjustments and the non-invoicing of the 2006/2011 adjustments due to the correction of the 2012 volumes.

Also in minutes no. 1 of 11 September 2018, the Parties shared the rules for appointing the Conciliation Board, specifying that:

- it shall be called upon to verify the possibility of an attempt at an amicable settlement between the Parties with respect to all and/or even some of the above matters;
- after an extensive investigation that must concern all the individual points under examination, the Conciliation Board must present the Parties with a proposal for conciliation;
- the Parties will be free to accept or reject the conciliation proposal presented by the Conciliation Board, i.e. to accept it in full or even only in part, without any obligation to give their reasons;
- therefore, the appointed Board will have the task of carrying out a preliminary activity on behalf of both Parties with respect to the matters entrusted to it, without prejudice to subsequent decisions that will be left to the individual Parties;

- the conciliation proposal presented by the Board and, more generally, the report and/or deeds drawn up by the Board may not be used in judicial proceedings by one Party against the other as a possible recognition of its own reasons and/or those of others;
- the appointed Board does not act as an Arbitration Board.

The Parties also shared the criteria for the appointment of the Board and, in particular, each Party appointed its own member. The Chairman of the Conciliation Board was selected by the Prefect of Frosinone, at the joint request of the Parties, and was jointly appointed on 16 May 2019. The Board officially took office on 27 May 2019, thus starting the 120-day period within which it had to arrive at a proposal for an amicable settlement of the issues submitted for its assessment.

On 17 September 2019, the Conciliation Board announced that it had completed the preliminary work on all the items assigned to the roundtable. However, it noted that due to the number and complexity of the issues under examination, a considerable amount of work was required to prepare a document presenting a comprehensive and reasoned conciliation proposal.

It therefore requested and obtained from the parties an extension of 30 days from 24 September 2019.

Following a detailed and in-depth investigation, the Conciliation Board prepared a draft of the Conciliation Proposal, presented to the Parties’ legal counsel at the meeting held on 11 November 2019.

At that meeting, the Parties invited the Board to draw up a draft of the Conciliation that would take into account the report illustrated in that meeting, as well as the proposals made by the Operator, to be submitted for examination and approval to the relevant Bodies. On 27 November 2019, the Conciliation Board submitted the final Conciliation Proposal to the Parties together with the draft of the Conciliation Deed.

The “Conciliation Proposal” and the draft “Conciliation Deed” were approved by the Acea Ato 5 BoD at a meeting held on 19 December 2019. For further details, please refer to the paragraph “Conciliation Board with AATO 5” in the section “Significant events for the 2019 financial year”.

See also the section entitled “Significant events in 2019” for the Water industrial segment.

In reference to additional cases related to legal disputes, filed or being filed, see the “Update on major disputes and litigation” section of this document.

Campania – Gori SpA (Sarnese Vesuviano)

Gori provides integrated water services in 76 Municipalities in the provinces of Naples and Salerno, on the basis of a thirty-year agreement signed on 30 September 2002 by the company and the Sarnese Vesuviano Area Authority. Gori pays a fee to the grantor of the concession (the Sarnese Vesuviano Area Authority), based on the date the right to manage the related services is effectively acquired. The area of operations has remained unchanged compared to the previous year, since the process of acquiring management is now complete. In fact, 76 Municipalities are managed, i.e. all those falling under Ato 3 in the Campania Region.

Tariffs

First of all, it should be remembered that the ARERA has established: a first transitional tariff method for the years 2012 and 2013, issued with resolution 585/2012/R/idr (“Transitional Tariff Method” or “MTT”); a second water tariff method for the years 2014 and 2015 issued with resolution 643/2013/R/idr (“Water Tariff Method” or “MTI”); a third and currently applicable water tariff method for the second regulatory period 2016-2019 implemented with resolution 664/2015/R/idr, as amended by subsequent resolution 918/2017/R/idr (“Water Tariff Method - 2” or “MTI-2”). Based on the tariff method implemented by the Authority, the Area Governing Body is re-

quired to prepare the Regulatory Scheme for the period of reference, which is then approved by the Authority.

In fact, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, in execution of the ARERA 664/2015/R/ldr resolution, prepared the 2016-2019 Regulatory Scheme with resolution no. 19 of 8 August 2016 and then updated it, in execution of the ARERA 918/2017/R/ldr resolution, with resolution no. 39 of 17 July 2018. With this last resolution: 1) the RCappr adjustment component was valued at € 216.9 million; 2) the Operator's Revenue Constraint ("VRG") was recognised for the years 2016 (VRG: € 167.9 million); 2017 (VRG: € 183.1 million), 2018 (VRG: € 197.0 million) and 2019 (VRG: € 206.3 million) as well as the corresponding "tariff multipliers" for the 2018 financial years (1.247505) and 2019 (1.309880); 3) it was decided to allocate the FoNI quota already envisaged for the year 2017 and not yet used to finance tariff reductions of a social nature; 4) the additional Water Bonus was established with the valuation of the OPsocial cost component for the years 2018-2019; 5) table no. 2 was updated relating to accruals, amortisation and separate loans for Municipalities of Ato 3.

In addition, the 2016-2019 Regulatory Scheme updated with Resolution 39/2018 was prepared on the basis of a plan aimed at the full implementation of the IWS of the Sarnese-Vesuvian District that guarantees, concurrently with economic-financial equilibrium: (a) the social sustainability of the IWS tariff applied to users, (b) the investments necessary for the improvement of the service, and (c) the recovery of accumulated tariff adjustments. For these purposes, the current Ato 3 Regulatory Scheme has established the following objectives to be achieved to ensure the full implementation of the IWS: 1) the transfer and increased efficiency of the "Regional Works", and, that is the water infrastructure falling within Ato 3 still under the management of the Campania Region and listed in the resolution of the Regional Council 243/2016; 2) re-employment and relocation – always with a view to making the IWS more efficient – the personnel assigned to the Regional Works in accordance with the procedures set forth in the agreements with the Trade Unions on the basis of aforementioned resolution 243/2016 and the relevant Framework Agreement of 3 August 2018 specified above; 2) the provision of instalment plans for the debts accrued by the Company – essentially due to the inadequacy of the tariff system effectively applied until 2016 – for wholesale supplies disbursed from 2013 onwards to the Campania Region and the concurrent resolution of the complex legal dispute arising from the payment of regional supplies of "wholesale water" and services of "collection and treatment of wastewater".

Tariffs: Biennial update of the tariff arrangements of the integrated water service

Pursuant to resolution ARERA no. 918/2017/R/ldr, with resolution no. 39 of 17 July 2018 the Extraordinary Commissioner of the Sarnese Vesuviano District approved: 1) update of the "Regulatory Scheme" of the integrated water service of the Campania Region Ato 3 already approved by Commissioner resolution no. 19/2016, 2) established the Works Programme, the Tariff Plan and the Financial Statement and the accompanying Methodological report pursuant to art. 13.2, letter c) resolution ARERA no. 918/2017/R/ldr; furthermore, for the purposes of the obligations of the Body pursuant to art. 13.2, letter c), ARERA resolution no. 918/2017/R/ldr, the Commissioner updated the "operator revenue restriction" of the Ato 3 IWS and the corresponding "tariff multipliers" for the years 2018 and 2019.

With Resolution 39/2018, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority approved the update of the restriction on revenues recognised to the Ato 3 IWS manager and the corresponding "tariff multipliers" for the years 2018 and 2019,

respectively to: 2016 = 1.090000, 2017 = 1.188100, 2018 = 1.247505, 2019 = 1.309880, thus maintaining the tariff multipliers already determined with commission resolution no. 19/2016 for the years 2016-2019.

Taking into account what is represented by the President of the Campania Water Authority, with note no. 144 of 10 April 2018 regarding the continuing competence of the Commissarial Management of the Sarnese Vesuviano Area Authority in order to implement the obligations deriving from the ARERA resolutions on tariff matters, pending the completion of the full establishment and operation of the Campania Water Authority, the Commissioner of the Ato 3 Sarnese Vesuviano has prudentially "updated the current 'regulatory framework' within the limits of what is strictly necessary, without prejudice to the choices that the Campania Water Authority will make when it will determine the conditions for its takeover of the functions that Italian Legislative Decree no. 152/2006 and Regional Law no. 15/2015 assign to it". In this prudential perspective, the main determinations adopted were as follows:

- the tariff multipliers already determined with commission resolution no. 19/2016 for the years 2016-2019 to the extent of the maximum admissible limit, equal to 9% for the two-year period 2016-2017 and equal to 5% for the two-year period 2018-2019;
- the projects already approved in the previous works programme for the 2016-2019 four-year period by the commissioner management with resolution no. 19/2016 was updated solely to take into account the investments necessary to ensure the timely implementation of regulatory obligations that occurred in the meantime as a result of ARERA resolutions on technical quality, tariff structure and social water bonus. Therefore, with respect to the proposed projects detailed by the Company with note no. 22159/2018, the approved "Works Programme" – due to the need to guarantee the technical quality objectives recently imposed by ARERA – has been changed from € 122.1 million to € 141.8 million for the four-year period 2016-2019. For the period 2020-2032, in line with what was previously specified the commissioner's management of the Body has deemed it appropriate to maintain the level of investments to be implemented starting from 2020, according to what is already envisaged in the Works Programme approved by commission resolution no. 19/2016;
- as regards the hypothesis of transfer of the regional works, the update of the deliberated regulatory scheme took into account the impossibility of a complete and timely implementation of the time schedule annexed to the Framework Agreement signed on 3 August 2016 in execution of resolution GR no. 243/2016, due to the failure to define, at present, the request for access to the financial equalisation measures, which was an indispensable prerequisite for covering the greater charges deriving from the planned change in the scope. Therefore, the proposed update process took into account the works and infrastructure already transferred to Gori and has substantially maintained the methods of transferring the plants that are still in the management of the Campania Region, with a delay of twenty-four months. Subsequently, as part of the Operational Agreement signed between Gori, the Campania Region and the EIC, the time schedule for the transfer of the Regional Works was further defined;
- with regard to the rebalancing measures, the update of the approved regulatory scheme took into account the proposal for an industrial agreement formalised in early 2018 by Gori to the Campania Region (currently under examination by the competent regional offices) called "Plan for the complete implementation of the IWS of the Ato 3" also valid as an update of the rebalancing measures included in the "Regulatory Scheme" approved by commission resolution no. 19/2016. In addition,

the Operating Agreement enabled the company to obtain a long-term loan with a pool of banks for a total of € 80 million and a share financed by the Private Partner Sarnese Vesuviano Srl for € 20 million;

- the recognition of the additional costs related to the activities carried out for the purpose of adapting to the commercial quality standards referred to in ARERA resolution 655/2015/R/IDR and to the technical quality standards as per resolution 917/2018/R/IDR, i.e. the OpexQCa and OpexQTa components of the opex have been quantified to the extent required by the Manager in the respective requests for recognition of the additional costs for adaptation to the quality standards set by the authority in the aforementioned resolutions; specifically, the higher charges recognised in the context of the update of the approved regulatory scheme amounted to OpexQC € 3.2 million for both 2018 and 2019 and OpexQT 2018 equal to € 2.0 million and OpexQT 2019 equal to € 2.2 million;
- pursuant to the provisions of art. 23-ter of Annex A of Resolution 918/2017/R/idr, the Opsocial component was quantified at € 2.0 million per year for both 2018 and 2019 to cover charges related to the maintenance of improved benefits over the minimum required by the national regulation (so-called additional water bonus) and at the same time the FoNI tariff component was set to zero;
- as regards the recognition of the additional costs of arrears in the context of the update of the approved regulatory framework, implemented prudentially on the basis of the foregoing concerning the nature and limits of the updates formulated by Commission Management, the value of the already recognised arrears cost has been kept unchanged pursuant to art. 30.3 of Annex A to the ARERA resolution no. 664/2015/R/ldr, with the aforementioned commissioner resolution no. 19/2016, within the following limits and subject to adjustment: year 2016 = 10%; year 2017 = 9%; year 2018 = 8%; year 2019 = 7.1%. The Application for the recognition of the actual cost of arrears for the years 2016 and 2017 and the statement relating to the request for the recognition of the actual cost of arrears for the years 2014 and 2015 prepared by the Manager pursuant to art. 30.3 of Annex A to the resolution of ARERA 643/2013/R/idr and submitted thereby with note no. 22169 of 18 May 2018 instead provided for the confirmation of the “recognition of a tariff component to cover arrears for the years 2014 and 2015 commensurate at least to a value of UR24 of 10%, unless proceeding directly with the final adjustment assigning the value of the unpaid amounts for 48 months and the recognition of a tariff component to cover default costs for the years 2016 and 2017 commensurate at least to a value of UR24 of 10%, unless proceeding with a final adjustment assigning the value of the unpaid amounts for 48 months;
- the RCappr adjustment component was valued at € 216.9 million;
- the updating of the regulatory framework in question does not include the approval of the new tariff structure drawn up in accordance with the provisions of Resolution 665/2017/R/idr containing the Integrated Text for Water Services Charges (TICSI). The adoption of the new fee structure, in compliance with the TICSI provisions, took place with resolution no. 40/2018 of 17 July 2018 or with a specific provision separate from the approval of the 2016-2019 Regulatory Scheme update.

With regard to the revenues for 2019, they have been quantified on the basis of resolution 39/2018 of the Extraordinary Commissioner and amounted to € 189.1 million. The same resolution approved, among other things, a theta for 2019 equal to 1.310, showing that in order to achieve equilibrium financial management of the Ato 3 in compliance with the restriction on the tariff increase

within the maximum limit to the annual variation established by art. 3.2 of annex A to the resolution of ARERA 664/2015/R/idr and subsequent amendments, a remodulation of the VRG has been proposed through the regulatory postponement of the portion of the costs exceeding the maximum limit.

It should be noted that the Commission’s resolution recognises, among other things, the following additional costs:

- OpexQC concerning the activities undertaken for the fulfilment of the service quality standards defined by the ARERA in Resolution 655/2015/R/idr, with the recognition of that requested by the Operator in the request submitted to the Authority on 23 May 2015, drafted pursuant to art. 23.3 of Annex A to the resolution of ARERA 664/2015/R/idr for the recognition of the same costs;
- OpexQT relating to the costs for the activities carried out for the purpose of adapting to the technical quality standards of the service, defined by ARERA with resolution 917/17/R/idr, with the acknowledgement of what was requested by the Operator in the application submitted to the Body on 18 May 2018, drafted pursuant to art. 23-bis of Annex A to ARERA Resolution 664/2015/R/idr and subsequent amendments;
- OpSocial are intended to finance tariff reductions that are better than the minimum envisaged by the national regulation (so-called supplemental water bonus);
- Opnew relating to the systematic change in the scope of the activities of the Manager mainly following the start-up of the management of the infrastructure of the IWS still managed by the Campania Region (so-called “Regional Works”) according to a transfer schedule.

The verification of the parameters for the identification of the regulatory quadrant and the presence of Opnew relating to systematic changes in the manager’s activities in the “presence of the supply of a new service (e.g. treatment or sewerage for an operator whose management was previously limited to an aqueduct service, or, in other cases, in the presence of an expansion with a supply chain upstream)” pursuant to art. 23.5, letter d) of Annex A, ARERA Resolution 664/2015/R/idr and subsequent amendments and additions, determined the placement in the sixth regulatory quadrant.

The OPnew taken into account in Commissioner resolution no. 39 of 17 July 2018 relate to the transfer of the Regional Works according to a transfer schedule starting from October 2016, and to the operating costs for the management of the water pumping plants called “Monaco Aiello” and “Vigna Caracciolo”, already recognised and carried out within the scope of the previous tariff preparation pursuant to Commissioner resolution no. 15 of 30 June 2015 and the subsequent elaborations prepared also by the Manager, and, finally, subject to approval with resolution ARERA 104/2016/R/idr.

It should be noted that the aforementioned transfer schedule, the effects of which were included in full in the tariff proposal pursuant to Commissioner Resolution no. 39/18 was in fact overcome by the signing of the Operational Agreement of 8 November 2018 between Gori, Campania Region and EIC. This Agreement redefined, among other things, the timing of the transfer to the Infrastructure Manager of the IWS still managed by the Region.

At 31 December 2019 the Works transferred to the Manager were: Waterworks at Mercato Palazzo with transfer in October 2016, waterworks at Boscotrecase and Cercola with transfer in March 2018, waterworks in the Nolana area with transfer in September 2018, waterworks at Campitelli and Boccia a Mauro to complete the Vesuvius area with transfer in December 2018, the Angri Wells Field with transfer in February 2019, the Nolana Area purification plant with transfer in March 2019, the completion of the Sarnese Area with transfer in April 2019, the Medio Sarno 2

purification plant with transfer in July 2019 and finally the transfers in December 2019 relating to the Medio Sarno 3 purification plant and the Sorrentine Peninsula water area.

Therefore, the OPnews taken into account for the calculation of revenues as at 31 December 2019 and which are therefore fully covered by the full cost recovery principle relate to the operating costs of the plants transferred.

The VRG was also updated pursuant to art. 29.1 of Annex A of ARERA resolution no. 664/2015/R/idr and subsequent amendment. In fact, the aforementioned art. 29.1 envisages that, for the purposes of determining the VRG for the 2016-2019 regulatory period, some cost items (electricity cost, balance of payments and penalties, Authority contribution, cost of wholesale supplies, activity costs connected to the IWS due to systemic changes in the conditions of the service or to the occurrence of exceptional events) are subject to a final assessment, as adjustment components (Rc), relative to the year (a-2).

With regard to the calculation of the Constraint for the costs for wholesale water services by the Campania Region for the year 2019, the tariff approved by the EIC by resolution no. 32 of 20 June 2019 determined the 2016-2019 regulatory scheme for the proposed wholesale water tariff for the “Campania Region” operator and equal to 0.192941 €/cm, with the application for the year 2019 of a theta equal to 1.177.

The pertinent cost at 31 December 2019 on the COws relating to regional water supplies, according to the principle of full cost recovery, was approximately € 14.9 million, entered for the same amount in VRG and in the related costs.

As regards the COws of the collection and purification service, here again they were calculated starting from the quantification of the recognised costs.

To determine the relevant costs at 31 December 2019, according to the principle of full cost recovery, amounting to approximately € 12 million, reference was made to the tariff for wastewater collection and purification services, equal to € 0.310422/m³, as a result of the application of the ARERA 338/2015/R/idr resolution to the regional tariffs for wholesale services, recognised by the Parties within the minutes of the meeting of 4 March 2016 between the Campania Region, the Area Authority and Gori, applying it to volumes treated by regional plants.

With regard to tariff adjustments, it should be noted that the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, with Resolution no. 39 of 17 July 2018, approved the regulatory framework for the years 2018-2019, including, among other things, the general recovery of the regulatory adjustments accrued, including those before 2012, within the limits of the applicable tariff increases, starting from the 2018 financial year.

In 2019 there was a net recovery of adjustments equal to € 24.1 million. Therefore, as at 31 December 2019 the tariff adjustments totalled € 139.8 million, of which € 119.8 million based on the recovery forecasts envisaged by the aforementioned, expiring beyond the following year.

Campania – Gesesa SpA (Ato 1 – Calore Irpino)

The Company operates in Ato 1 Calore Irpino which promotes and develops the initiative for the management of the Integrated Water Service in Municipalities in the Province of Avellino and Benevento. The Company manages the Integrated Water Service of 22 Municipalities in the Province of Benevento with a resident population served of approximately 123,000 inhabitants over an area of approximately 710 km² and 57,000 users. The sewerage service is provided to approximately 80% of users while the purification service to about 40%.

In 2018 the IWS of the Municipality of Morcone was acquired and

several contacts are under way with new Municipalities for the management of their relative IWSs.

From 17 July 2018 the company redefined the Management Agreement with the Municipality of Benevento by extending its management to the entire IWS, adding Sewerage and Water Treatment to the services provided. As far as the Municipality of Benevento is concerned, an important agreement was reached for the construction of sewerage treatment plants for the city, with agreements with the extraordinary national commissioner being stipulated that should entrust the design phase to the company.

Currently, the Authority – governed by the Extraordinary Commissioner referred to in DGR no. 813/2012 and merged into the regional EIC at the end of 2018 – has not yet assigned the management of the Integrated Water Service.

During 2019, the Company began to establish the foundations consistent with the resolutions of the Board for a new path of growth and development aimed at achieving strategic objectives that provide for company growth. In this regard, a capital increase operation was already approved to aggregate new operations with the direct assignment of the Integrated Water Service by new Municipalities, using an instrument that is given by the regulatory provisions contained in Italian Legislative Decree 175/2016 containing the “Consolidated Law on companies in which the public administration participates”. Art. 4 of the aforementioned regulation allows Municipalities to acquire company shareholdings in activities producing a service of general interest, subject to the body’s verification of the economic convenience of the direct or externalised management of the service entrusted to private operators.

This gives the Company the opportunity to proceed with new acquisitions of IWS and therefore to continue its development in the territory falling under Ato 1, pending the identification of the single operator, implementing a management development that, upon reaching at least 25% of the population served, would establish the Company as an interlocutor able to request the direct awarding of the entire territory as Sole Manager.

With regard to the bi-annual updating of the 2018-2019 tariffs, the activity was conditioned by the taking over of the Ente Idrico Campano in the legal relations established by the Calore Irpino Area Governing Body as from 1 October 2018.

The Company prepared the 2016 and 2017 financial statements as well as the Works Programme for the preparation of the proposed tariff revision with the definition of the VRGs and Thetas for the years 2018-2019, reviewing the investment planning for the years 2018-2019, also taking into account the results of the audit of 16-20 October 2017 contained in ARERA determination no. DSAI/26/2018/IDR of 10 April 2018 concerning the initiation of proceedings for the adoption of sanctions and prescriptive measures concerning the tariff regulation of the Integrated Water Service.

At present, the 2018-2019 tariff proposal submitted on 22 May 2019 is in the process of being approved by the EIC and will subsequently be sent to ARERA for ratification.

As a result of the above, revenues were recognised on the basis of the VRG currently being approved by the EIC. The Tariff Proposal for 2016-2019, approved by AATO 1 in Extraordinary Commissioner’s Resolution no. 8 dated 29 March 2017, envisages the following tariff multipliers:

- 6.10% for 2016;
- 6.30% for 2017;
- 6.0% for 2018;
- **4.00% for 2019.**

Approval by the ARERA is awaited.

It should be noted that ARERA, with Resolution dated 29 January 2019 34/2019/R/idr, initiated a procedure aimed at defining the water tariff method for the third regulatory period (MTI-3), with

unification with the procedure set out in Resolution 518/2018/R/idr of the Authority relating to the control of the implementation of the planned investments in the Integrated Water Service.

In short we are waiting for the approval of the Authority and for the submission of the consequent proposed update tariff for the period 2018-2019 to ARERA which, on the basis of the revised data, guarantees the economic balance of the management with the recognition of higher revenues linked to the new management of the years 2015-2018.

Tuscany – Acque SpA (Ato 2 – Basso Valdarno)

The management agreement, which came into force on 1 January 2002 with an initial twenty-year duration was signed on 28 December 2001, then in November 2018 it was extended to 2031. In accordance with said agreement, the Operator took over the exclusive integrated water service of Ato 2, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of wastewater. The Area includes 57 Municipalities. In return for award of the concession, Acque pays a fee to all the Municipalities, including accumulated liabilities incurred under previous concessions awarded.

With regard to **tariffs**, with Resolution no. 6/2018 of 22 June 2018 concerning the “Update of the tariff structure 2018-2019”, the Board of Directors of the Tuscany Water Authority modified, with the same tariff multipliers, the composition of the 2016 and 2017 tariffs approved by resolution AIT no. 32/2017 of 5 October 2017 providing for a remodulation of the recovery of tariff adjustments for approximately € 9.7 million in the period 2022-2023.

With the same resolution the Board of Directors of the Tuscany Water Authority approved the 2018-2019 tariff proposal, the update of the works programme, the updating of the economic and financial plan and the extension of the duration of the concession of service from the previous deadline of 31 December 2026 to the new deadline of 31 December 2031.

The new Tariff plan with the end of the concession on 31 December 2031, compared to the previous plan with the end of the concession on 31 December 2026, contains the forecast of greater investments in service infrastructure and more contained tariff increases.

Therefore, as a result of the new tariff proposal, the 2019 tariff multiplier was equal to 1.50%, whereas in 2018 it was equal to 5.39%.

The new 2018-2019 tariff proposal, as well as the updating of the 2016-2017 annual tariff and all the related documents (works programme, updating of the economic-financial plan, extension of the concession duration by a further 5 years) approved by the AIT with resolution 6/2018, were approved by the ARERA with resolution 502/2018/R/idr of 9 October 2018 with modification with respect to the AIT proposal of the OPEX_{qc} recognised in the tariff but without changes to the tariff multiplier to be applied to the tariffs of the year.

The revenues for the period amount to a total, including the adjustment of passing items, of € 162.9 million (Group share € 73.3 million) and represent the best estimate made on the basis of the tariff proposal approved by the AIT in June 2018 and ARERA in October 2018.

Finally, it is noted that on 24 January 2019, with the submission of the required documentation, with the termination of the previous loan and the related hedging contracts and with the stipulation of the new interest rate hedging contracts, the suspensive conditions were met and, therefore, the new loan agreement became effective. The new loan was stipulated with a pool of banks and envisages two lines of credit: 1) Term Line of € 200.0 million disbursed in a single use and with final single maturity of 29 December 2023 and, 2) RCF Line equal to € 25.0 million payable in one or more uses within the period of use and final maturity on 29 December

2023. This line must be used exclusively to meet the financial needs of the Company for its ordinary business.

At the same time the new loan agreements were entered into, 6 new interest rate hedging contracts were entered into. The new contracts envisage the Company's semi-annual payment of a fixed rate to the counterparties starting from 24 January 2019 and in correspondence with a payment by the counterparties to Acque of a variable rate.

With reference to the main **disputes** of the Company, it should be noted that:

- the case before the Court of Florence (specialised section for companies) was concluded favourably for Acque, it being ordered to pay as a fee/compensation € 1,989,834.00 for the use of water networks built by the plaintiff company in a Municipality of the area served, before the assignment of the concession of the service. With sentence no. 1447/18 the Judicial Authority did not accept the request of the plaintiff and ordered it to reimburse each of the defendants – including Acque – for the costs of litigation. Subsequently, Consiag filed an appeal in whose proceedings Acque had appeared. The case ended favourably for the Company as the Court of Appeal of Florence rejected the appeal filed by Consiag against the ruling of the Business Court;
- with regard to the judgement pending before the Council of State, the appeal against the sentence of the regional administrative court for the rejection of Acque's appeal against resolution no. 60 of 27 April 2011 of Co.N.Vi.Ri, referring to the review of the correct drafting of the Area Plan of AATO 2 Tuscany - Basso Valdarno, the Company presented a motion to withdraw on 18 December 2018 in order to prevent the appeal from being quashed. At the outcome of the hearing held in the Council Chamber on 30 May 2019, the Council of State upheld the appeal (with sentence no. 4217/2019 published on 20 June 2019) and thus annulled the administrative measures challenged at first instance, overturning the judgement of 22 April 2013 no. 660 of the Regional Administrative Court of Tuscany. The judgement pronounced by the Council of State was served to Acque on 27 June 2019. The time limit (60 days from the date of notification of the judgement) for the appeal against the measure expired on 26 September 2019. As a result, the risk provision set aside for this purpose was released.

Tuscany – Publiacqua SpA (Ato 3 – Medio Valdarno)

The management agreement, which came into force on 1 January 2002 with a twenty-year duration, was signed on 20 December 2001. In accordance with said agreement, the Operator took over the exclusive integrated water service of Ato 3, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of wastewater. The Area includes 49 Municipalities, of which 6 managed via agreements inherited from the previous operator, Fiorentinagas. In return for awarding the concession, the Operator pays a fee to all the Municipalities, including accumulated liabilities incurred prior to the awarding of the related contracts. In June 2006, Acea – via the vehicle Acque Blu Fiorentina – completed its acquisition of an interest in the company.

With regard to the **tariffs**, with resolution no. 29/2016 of 5 October 2016 the AIT approved the tariffs for the second 2016-2019 regulatory period (MTI-2) pursuant to the ARERA resolution no. 664/2015.

With resolution 687/2017R/idr ARERA approved the tariffs proposed by the Tuscany Water Authority on 12 October 2017. Following the approval of the new tariff structure envisaged by the ARERA Resolution no. 665/2017/R/idr (TICSI), Publiacqua has billed according to the new structure since August.

Finally, also note that with resolution no. 24 of 7 December 2018 the AIT approved the 2018-2019 tariffs, with extension of the concession for three years. Currently approval by the ARERA is awaited.

Total revenues for the year, including adjustments to pass-through items, amounted to € 253.4 million (€ 101.4 million in the Group). Revenues also include the Fo.NI. component for € 30.0 million (Group share € 12.0 million).

In terms of **sources of financing**, it should be noted that following the extension of the concession to 2024 the Company began a market survey with the main financial institutions, aimed at verifying the availability and economic conditions to proceed with the disbursement of a medium/long-term bank loan aimed in part at extinguishing existing financial exposures and in part at supporting the investments provided for in the new approved Intervention Plan. On 18 June 2019 the banks were invited to submit a binding offer on the basis of a term sheet. Following the offers received, on 31 July 2019 the Company signed the new loan for € 140.0 million divided among five lending banks. The **Base Line** must be used for the full repayment of the existing Loan stipulated on 30 March 2016 with BNL and Banca Intesa for the payment of the ancillary costs of the new Loan and for the requirements related to the realisation of the investments envisaged in the EFP, while the **Investment Line** will be used to fully cover the requirements for further investments envisaged in the EFP. Among the conditions precedent to the disbursement of the loan, the lending banks have requested ARERA's approval of the new Tariff Plan, including the extension of the concession.

Tuscany – AdF SpA (Ato 6 – Ombrone)

Based on the agreement signed on 28 December 2001, the operator (AdF) is to supply integrated water services on an exclusive basis in Ato 6, consisting of public services covering the collection, abstraction and distribution of water for civil use, sewerage and wastewater treatment. The concession term is twenty-five years from 1 January 2002. Via the vehicle Ombrone SpA, in August 2004 Acea completed its acquisition of an interest in the Company's capital.

With reference to **tariffs**, 2019 is the second year of the second two-year period in which the water regulatory cycle 2016-2019 is divided (so-called MTI-2) scope of application of Resolution ARERA 664/2015/R/Idr (so-called MTI-2) of 28 December 2015 "Approval of the Water Tariff Method for the second regulatory period MTI-2", with which ARERA definitively regulates the tariffs for the period 2016-2019 and the recent Resolution 918/2017/R/Idr on the bi-annual updating of the tariffs for the period 2018-2019.

With regard to the aforementioned bi-annual update of the tariffs for the period 2018-2019, on 27 July 2018, based on the actual data collected referring to the years 2016 and 2017 and the Investment Plan, the Tuscan Area Governing Body (AIT) approved the tariff revision proposal, setting the VRG and the Theta of the years 2018-2019 and also redesigning the entire tariff profile until the end of the IWS concession (Deliberation of the Executive Council of the AIT no.17/2018 of 27 July 2018). Following further analysis of the greater needs for AdF investments related to technical quality, with Resolution no. 10/2019 of 1 July 2019 the Board of Directors of the Tuscan Water Authority produced and submitted to ARERA a new tariff proposal with re-modulation of the 2031 deadline, which the Authority finally approved with Resolution no. 465/2019/R/IDR of 12 November 2019, confirming the levels of the original 2018-2019 proposed theta.

Revenues for the period were determined based on the tariff update proposal 2018-2019 in the context of MTI-2, recently approved by the Board of Directors and total, including adjustments for pass-

through items, € 111.9 million (Group share € 60.4 million) and a share of FoNI equal to € 9.6 million (Group share € 5.2 million).

On the **financial side**, with regard to the structured bank loan signed on 30 June 2015, during the year AdF initiated discussions with lending institutions in order to revise some conditions of its existing loan agreement. In fact, at the end of the negotiations AdF obtained consent to modify the repayment terms starting from 2020 and to improve the financial conditions (spread on the Euribor equal to 1.9%), the latter supported by the issue of a guarantee by Acea to partially cover the payment obligations deriving from the contract. In this context, in view of the financial commitment required of the Parent Company Acea, the Shareholders agreed to review the existing Shareholders' Agreements, and consequently the provisions of the by-laws with regard to the governance of the Company in order to attribute greater management powers to the Private Shareholder. The direct consequences of these changes led to the transfer of the consolidation of AdF from equity valuation to full consolidation of the equity investment held indirectly by Acea through its subsidiary Ombrone.

Umbria – Umbra Acque SpA (Ato 1 – Umbria 1)

On 26 November 2007 Acea was finally awarded the tender called by the Ato 1 Perugia Area Authority for selecting the private minority industrial partner of Umbra Acque (expiry of the concession on 31 December 2027) The entry into the capital of the company (with 40% of the shares) took place with effect from 1 January 2008. The company performed its activities in all 38 Municipalities constituting Atos 1 and 2.

The tariff applied to users for the year 2019 is the rate applied to users was determined by Resolution no. 489 2018/R/Idr of 27 September 2018 with which ARERA approved the updating of tariff arrangements for the two-year period 2018-2019, previously proposed by the Assembly of Mayors of the AURI with Resolution no. 9 of 27 July 2018. Finally, we inform you that on 29 December 2018 the request to extend the duration of the assignment to 31 December 2031 pursuant to art. 5.2 and 5.3 of the Convention and Resolution 656/2015/R/IDR.

It should be noted that with Resolution of the Executive Council no.62 of 28 December 2018, AURI approved the new tariff structure, as defined by the Integrated Water Services Considerations (TICSI) approved by ARERA with Resolution no. 665/2017/R/Idr on 28 September 2017. On the basis of the determinations of the ARERA, the revenues for the period were valorised, amounting to a total of € 81.0 million (Group share € 32.4 million) inclusive of the adjustment of passing items and include the FoNI component of € 10.4 million (Group share € 4.2 million).

With reference to the debt situation of Umbra Acque towards the Municipalities for the fee due under the Convention for the repayment of the loan instalments contracted by the same Municipalities for the realisation of IWS works, note that the Company has continued the virtuous course already started in the last three years, respecting the commitments included in the tariff proposal for the 2016-2019 four-year period approved by the relevant ATI 1 and ATI 2 on 30 June 2016 and by ARERA with Resolution no.764/2016/R/Idr dated 15 December 2016 relating to the repayment plan lasting five years with fixed instalments to cover the residual debt owed to the Municipalities for charges past due, starting in 2017 and ending in 2021.

With regard to the appeal before the Umbria Regional Administrative Court arising from the disputes filed by the Umbrian Public Water Committee and concerning the appeal of the provision with which the Area Governing Body (in this case the ATI Umbria

sub-sector 1) resolved and then validated the recognition of tariff adjustments due to Umbra Acque for the past services of 2003-2011, before the advent of national regulation under ARERA.

Rejection by the Judicial Authority involves continues to represent a step of significant importance for the Company. The desired rejection by the appropriate Judicial Authority continues to be of significant importance for the Company.

It should be noted that the Regional Administrative Court of Umbria, with sentence no. 243/2019 published on 9 May 2019, rejected the appeals presented by the “Comitato Umbro Acqua Pubblica”, confirming the legitimacy of the aforesaid resolutions adopted by the AGB on the basis of which the Company charged the recovery of the items prior to 2012 in the bill. As of today, giv-

en that the six-month period from the publication of the sentence has elapsed without an appeal having been filed, sentence no. 243/2019 of the Regional Administrative Court of Umbria has become final, and therefore the present dispute must be considered definitively concluded with a positive outcome for the Company.

PROGRESS OF THE PROCEDURE FOR APPROVING THE TARIFFS

The progress of the procedure for approving tariffs and the approval of the two-year update (2018-2019) of the IWS tariff provisions for the Group companies is shown below.

Company	Approval status (up to MT12 "2016-2019")	Biennial update status (2018-2019)
Acea Ato 2	On 27 July 2016, the AGB approved the tariff inclusive of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. The ARERA then approved them in Resolution 674/2016/R/idr, with some changes compared to the AGB's proposal; quality bonus confirmed.	The Conference of Mayors approved the tariff update on 15 October 2018. On 13 November 2018, the ARERA approved the tariff update with Resolution 572/2018/R/idr. The Conference of Mayors adopted the provisions of the ARERA resolution on 10 December 2018.
Acea Ato 5	Tariff proposal submitted by the Operator on 30 May 2016, with request for recognition of the Opex _{qc} . ARERA warned the AGB on 16 November 2016 and the EGA approved the tariff proposal on 13 December 2016, rejecting, among others, the request for recognition of the Opex _{qc} . Approval by the ARERA is awaited.	The Conference of Mayors approved the 2018-2019 tariff update on 1 August 2018. Currently approval by the ARERA is awaited.
Gori	On 1 September 2016, the Extraordinary Commissioner of the AGB approved the tariff with Opex _{qc} as of 2017. Approval by the ARERA is awaited.	On 17 July 2018 the Extraordinary Commissioner of the AGB approved the 2018-2019 tariff update. Currently approval by the ARERA is awaited.
Acque	On 5 October 2017, the AIT approved the tariff with recognition of the Opex _{qc} . Approved by ARERA on 9 October 2018 (as part of the approval of the 2018-2019 update).	On 22 June 2018 the AIT Board of Directors approved the 2018-2019 tariff update and, at the same time, the request to extend the duration of the 5-year contract, that is until 31 December 2031. With resolution 502 of 9 October 2018, the ARERA approved the 2018-2019 tariff update.
Publiacqua	On 5 October 2016, the AIT approved the tariff with recognition of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. With resolution 687/2017/R/idr, on 12 October 2017 ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 7 December 2018 the AIT approved the 2018-2019 tariffs with the extension of the 3-year concession. Currently approval by the ARERA is awaited.
AdF	On 5 October 2016, the AIT approved the tariff with recognition of the Opex _{qc} . On 12 October 2017, with resolution 687/2017/R/idr ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	The AIT Board of Directors approved the 2018-2019 tariff update in the session of 27 July 2018. Pending approval by ARERA, the AIT Board of Directors also approved the application to extend the concession to 31 December 2031, submitted by the Company in April 2019 and approved at the Territorial Conference in June 2019. The updated tariff proposal was then presented to extend it to 2031, which in any case confirmed the tariff increase (theta) and the Guaranteed Revenue Constraint (GRC) for the years 2018 and 2019, already approved by the AIT with its resolution of July 2018. ARERA approved the two-yearly update (with a small correction of the recognised Opex _{QC}) and the extension of the concession with Resolution no. 465 of 12 November 2019.
Geal	On 22 July 2016, the AIT approved the tariff with recognition of the Opex _{qc} . With resolution 726/2017/R/idr, on 26 October 2017 ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 12 July 2018 ARERA approved the tariff update proposed by AIT.

(follows)

Company	Approval status (up to MT12 "2016-2019")	Biennial update status (2018-2019)
Crea Gestioni	Following Resolution no. 664/2015/R/idr, both for the Municipality of Campagnano di Roma (RM) and the Municipality of Termoli (CB), Municipalities where Crea Gestioni offers the IWS, neither the Granting Body nor the Area Authority of reference submitted a tariff proposal for the regulatory period 2016-2019, so the Company independently submitted tariff proposals. Currently approval by the ARERA is still pending.	The Company has submitted the data to the competent parties/AGB in order to update the 2018-2019 tariff. For the management of the IWS in the Municipality of Campagnano di Roma (RM), given the inaction of the designated parties the Company filed an application with ARERA in January 2019 for a tariff adjustment in 2018-2019, also revising the 2016-2019 proposal. ARERA has not yet pronounced or issued a warning to the AGB and/or to the competent parties. For the management of the IWS in the Municipality of Termoli (CB), with a resolution dated 17 December 2019 the Municipal Council of Termoli approved the alignment of the existing Agreement to the Agreement template, extending its expiry to 31 December 2021, and confirmed the tariff increase for 2018 and 2019, also revising the 2016-2019 proposal. Currently approval by the ARERA is therefore awaited.
Gesesa	On 29 March 2017 the Extraordinary Commissioner of Ato Alto Calore Irpino approved the tariff arrangement for the years 2016-2019 with resolution no. 8. Approval by the ARERA is awaited.	The Company submitted the documentation relating to the 2018-2019 tariff revision to the Area Authority, and the investigation by the AGB should be completed in early 2020 with the final approval by the Executive Committee of the EIC (Ente Idrico Campano).
Nuove Acque	On 22 July 2016, the AIT Shareholders' Meeting approved the rates.	On 22 June 2018 the Board of Directors of AIT approved the 2018-2019 tariff update. On 16 October 2018 with Resolution 520 ARERA approved the tariff update proposed by AIT.
Umbra Acque	On 30 June 2016, the AGB approved the tariff with recognition of the $Opex_{gc}$. The ARERA then approved them in Resolution 764/2016/R/idr dated 15 December 2016.	In its session of 27 July 2018, the AURI Meeting approved the 2018-2019 tariff update. The ARERA approved the 2018-2019 tariffs with resolution no. 489 of 27 September 2018.

Pending completion of the approval process, which is still in progress, the revenues recorded are determined on the basis of the tariff schemes previously approved by ARERA or by the respective Area Government Agencies, as detailed above.

RELATED PARTY TRANSACTIONS

ACEA GROUP AND ROMA CAPITALE

Trading relations between Acea Group companies and Roma Capitale include the supply of electricity and water and provision of services to the Municipality.

Among the principal services are the management, maintenance and upgrading of Public Lighting facilities and, with regard to environmental-water services, the maintenance of fountains and drinking fountains and the additional water service, as well as contract work. Such relations are governed by appropriate service contracts and the supply of water and electricity is conducted by applying the tariffs in force on the market adjusted to the supply conditions.

Acea and Acea Ato 2, respectively, provide Public Lighting and integrated water services under the terms of two thirty-year con-

cession agreements. Further details are provided in the section "Service concession arrangements".

As discussed in the notes to the consolidated financial statements as at 31 December 2018, in 2019, Roma Capitale and the Acea Group began a technical round table to define some previous positions regarding the services provided under water service and Public Lighting contracts. At present, the parties are continuing to reconcile their respective items.

For further information regarding relations between the Acea Group and Roma Capitale, reference should be made to the disclosures regarding receivables and payables from and to the Parent Company in note 24 of this document.

The following table shows details of the main revenues and costs at 31 December 2019 of the Acea Group (compared to those of the previous year) deriving from the most significant financial relations.

€ thousand	REVENUES		COSTS	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Supply of fresh water	40,698	36,250		
Supply of electricity	56	148		
Public Lighting service contract	40,631	42,883		
Public Lighting contract interest	5,117	4,233		
Water maintenance service contract	228	191		
Monumental fountain service contract	228	191		
Concession fee		0	26,115	25,968
Lease fees		0	110	79
Taxes and duties		0	3,595	5,115

Reference should be made to note 24.b for details on the impact of these transactions, while the table below summarises the changes in receivables and payables.

€ thousand	31/12/2018	Collections/payments	Accruals 2019	31/12/2019
RECEIVABLES	155,993	(8,481)	87,386	234,898
PAYABLES	(108,063)	8,481	(101,656)	(201,239)

ACEA GROUP AND ROMA CAPITALE GROUP

The Acea Group also maintains trading relations with other companies, special companies and entities owned by Roma Capitale, mainly concerning the supply of electricity and water.

The supply of services to entities owned by the Roma Capitale Group is also conducted by applying the tariffs in force on the mar-

ket adjusted to the supply conditions. The prices applied to sales of electricity to free market users are in line with the sales policies of Acea Energia.

The following table shows the most significant amounts of revenues, costs, receivables and payables deriving from relations between the Acea Group and entities owned by the Roma Capitale Group.

Roma Capitale Group	Trade payables	Costs	Trade receivables	Revenues
AMA SPA	2,911	1,250	4,493	4,940
ATAC SPA	467	413	8,117	1,500
ROMA MULTISERVIZI SPA	2	0	0	0
Total	3,379	1,664	12,226	6,441

ACEA GROUP AND MAIN CALTAGIRONE GROUP COMPANIES

The Acea Group companies maintain trading relations that mainly concern the supply of electricity and water. The supply of services to entities owned by this company is con-

ducted by applying the tariffs in force on the market adjusted to the supply conditions. The prices applied to sales of electricity to free market users are in line with the sales policies of Acea Energia. The following table shows the most significant amounts relating to financial relations between the Acea Group and the main entities owned by the Caltagirone Group at 31 December 2019.

€ thousand	Revenues	Costs	Receivables	Payables
Caltagirone Group	1,508	286	84	1,303

ACEA GROUP AND SUEZ ENVIRONMENT COMPANY SA GROUP

There were no relations with companies in the Suez Group as at 31 December 2019. It must also be noted that the financial balances described above do not include relations with companies in the Group consolidated under the equity method., which are included in the financial statements.

List of significant related party transactions

It should be noted that no non-recurring significant transactions with related parties were carried out during the period.

The table below shows the percentage weight of transactions with related parties on the statement of financial position, the income statement and the cash flow statement.

IMPACT ON THE STATEMENT OF FINANCIAL POSITION

€ thousand	31/12/2019	Of which with related parties	Impact	31/12/2018	Of which with related parties	Impact
Financial assets	47,202	26,144	55.40%	55,831	30,847	55.30%
Trade receivables	1,035,462	99,798	9.60%	927,834	83,982	9.10%
Current financial assets	299,212	121,968	40.80%	113,960	86,644	76.00%
Trade payables	1,600,263	111,319	7.00%	1,524,876	124,499	8.20%
Borrowings	674,364	79,616	11.80%	408,675	627	0.20%

IMPACT ON THE INCOME STATEMENT

€ thousand	31/12/2019	Of which with related parties	Impact	31/12/2018	Of which with related parties	Impact
Consolidated net revenues	3,186,136	87,443	2.7%	3,028,487	127,314	4.2%
Consolidated operating costs	2,185,306	39,349	1.8%	2,138,560	47,225	2.2%
Total Financial (costs)/income	(90,302)	4,787	(5.3%)	(82,859)	13,303	(16.1%)

IMPACT ON THE CASH FLOW STATEMENT

€ thousand	31/12/2019	Of which with related parties	Impact	31/12/2018	Of which with related parties	Impact
Increase in receivables included in the working capital	(118,892)	(15,816)	13.3%	98,720	(69,302)	(70.2%)
Increase/decrease in payables included in the working capital	41,729	(13,180)	(31.6%)	(15,544)	(11,555)	74.3%
Collections/payments deriving from other financial investments	(177,824)	(30,620)	17.2%	116,038	(39,283)	(33.9%)
Collected dividends	16,787	16,787	100.0%	8,612	8,612	100.0%
Decrease/increase in other short-term financial debts	(89,136)	78,989	(88.6%)	(233,453)	(2,415)	1.0%
Dividends paid	(73,795)	(73,795)	100.0%	(137,379)	(137,379)	100.0%

UPDATE ON MAJOR DISPUTES AND LITIGATION

TAX ISSUES

Tax audit of SAO (now incorporated into Acea Ambiente)

In October 2008, the Revenue Agency notified the company with two notices of assessment which reassessed, inter alia, the tax reports for the tax years 2003 and 2004 with regard to the IRES tax. The alleged irregularities arise from the application of article 14, paragraph 4-bis of Law no. 537 of 24 December 1993.

The appeals filed by the Company were merged by the Tax Commission of Terni which, in the month of May 2009, upheld the application for suspension filed by SAO and in November 2009 stayed the proceedings by raising the issue of the constitutionality of article 14, paragraph 4 bis of Law no. 537 of 24 December 1993, upon which the tax assessment was based.

By decision of March 2011 the Constitutional Court dismissed the constitutionality issue and remanded the proceedings to the Tax Commission of Terni. In January 2013, the Commission upheld the appeals filed by SAO and ordered the Agency Revenue to pay 50% of the legal costs incurred by the Company.

By judgement 419/04/14 issued on 24 February 2014, filed in July 2014, the Regional Tax Commission of Umbria rejected the appeal filed by the Revenue Agency, ordering it to pay the legal costs. On 21 September 2015, the company received from the State Attorney General the appeal lodged with the Supreme Court of Cassation by the Revenue Agency against the aforementioned ruling 419/04/14: SAO (now Acea Ambiente) filed its appearance with its defence statement and simultaneous conditional cross-appeal notified on 28 October 2015. Currently no date has been fixed for the hearing before the Supreme Court of Cassation.

In addition to the above, in November 2008, the Revenue Agency notified the company, and the former Parent Company EnerTAD SpA, with a notice of assessment that reassessed the IRES tax due for the 2004 tax period, establishing an additional tax charge of € 2.3 million for taxes, net of penalties, where applicable. The alleged irregularities arise from the application of article 14, paragraph 4-bis of Law no. 537 of 24 December 1993.

The Company's defence arguments were upheld by both the Provincial and the Regional Tax Commission. In February 2013, the Revenue Agency appealed to the Supreme Court of Cassation and the company filed its appearance.

It is believed that the actions of the tax authorities mentioned above are illegitimate, and that the risk of having to pay the full amount is remote, which previous shareholder (Enertad, now Erg Renew) will be obliged to pay on the basis of the guarantees issued as part of the purchase/sale agreement regarding the shares of the direct parent company A.R.I.A. Srl (today Acea Ambiente Srl).

For the sake of completeness, we also mention that in January 2009, the company challenged the decision ref. no. 2008/27753 of 27 November 2008 by which the Revenue Agency suspended the payment of a VAT refund claimed by the Company for the 2003 tax year. This refund amounting to € 1.3 million, was recognized by the tax authorities, but it was suspended as a precautionary measure due to the above mentioned tax assessments. The Tax Commission, with Ruling issued following the hearing held in March 2010, upheld the appeal lodged by the company, thus cancelling the cited measure against the aforementioned ruling. The Revenue Agency submitted an appeal in September 2010. The proceedings are in progress. It should be noted that the receivable concerning the above VAT refund was sold for valuable consideration in July 2010. The buyer lodged an appeal, simultaneously requesting discussion at a public hearing for the cancellation of measure

73747/2011 by which the Terni Provincial Department of the Revenue Agency declared the sale of said VAT credit from SAO to said assignee to be unacceptable. By ruling no. 52/04/12 issued on 3 October 2011 and filed on 26 March 2012, the Perugia Regional Tax Commission rejected the appeal filed by the Tax Authorities, with reimbursement of costs. The Revenue Agency appealed to the Supreme Court of Cassation and the company filed its appearance.

Tax audit of areti

In the Report on Findings (PVC) concerning the general inspection for 2010, an assessment was also made of the tax treatment of some items that were previously inspected and had a multi-annual validity.

On the basis of the notification made in the PVC, the Lazio DRE – Major Taxpayers' Office served five notifications of assessment concerning VAT for 2009, 2011, 2012, 2013 and 2014.

With regard to the notices relating to 2009, 2011 and 2012, the Regional Tax Commission considered the company's reasons valid and annulled the notices of assessment, and the deadline for appealing to Cassation expires on 17 February 2020. With regard to the year 2013, the first instance hearing was held on 6 February, for which the judgement has not yet been filed, the date of discussion for the notice of assessment for the year 2014 has not yet been set.

On the basis of another report, the company received notices of assessment for the years 2011 to 2014 concerning the IRAP treatment of tariff benefits granted to employees and former employees. With regard to 2011 and 2012, the Provincial Tax Commission voided the notices of assessment and the Company is still waiting for a second-degree hearing to be scheduled. For the year 2013, the CTR rejected the company's appeal. On 23 January 2020 the company served notice of appeal against the first instance decision. A first instance hearing has not yet been scheduled for the year 2014.

Tax disputes/lawsuits with ARSE

In January 2016, ARSE, a company at the time already closed due to complete spin-off, was informed of a notification of liquidation of the complementary register fee concerning the requalification of the conferment transaction and subsequent transfer of the equity investment in Apollo Srl, a company in the photovoltaic segment. The tax demanded, including interest, amounts to € 672 thousand.

On 7 March 2017, the beneficiaries of the ARSE – Acea SpA, Acea Liquidation and Litigation and Acea Produzione – believe the notification of liquidation is groundless as regards both the obvious technicalities in terms of its form and as regards the dispute involved in the notification.

On 15 January 2018, the hearing for discussion was held before the Provincial Tax Commission of Rome. By judgement no. 1926/15/2018 deposited on 22 January 2018, the judges cancelled the notice of assessment challenged. On 5 June 2018 the Office filed an appeal against the above judgement; the companies joined the proceedings in the second instance, filing counterarguments on 7 August 2018. As of today's date, a hearing to discuss this case has not yet been scheduled.

On 14 June 2012, the Company was delivered a Report on Findings from the Italian Financial Police – Rome Tax Police Department following its inspection to check the correct use of the tax suspension provisions under the VAT tax warehouse system pursuant to article 50-bis of Italian Decree Law no 331 of 30 August 1993 ("VAT Deposits"), relating to certain assets imported by the Company in 2009, 2010 and 2011.

Based on the alleged abusive use of the aforementioned system by

the company, the inspectors charged the company with failure to pay VAT on imports – for 2009, 2010 and 2011 – amounting to a total of € 16,198,714.87.

On 6 August 2012 the company submitted a defence brief pursuant to art. 12, paragraph 7, of Law no. 212 of 27 July 2000 concerning the findings contained in the aforementioned Report on Findings.

The issue relating to the concepts of simulated warehouses and the introduction of goods to the country is particularly well-known and debated, and has been the subject of numerous papers on practices issued by the Customs Authority and several cases of legal intervention.

The company considers that all the factual and legal conditions envisaged in the regulation on the use of VAT Deposits, as interpreted by the relevant administrative bodies, were fully satisfied and therefore the aforementioned Report on Findings is without grounds.

Tax audit of Acea SpA

On 17 April 2018 the Regional Directorate of Lazio – Large Taxpayers Office initiated a general tax audit of the Company. The audit was concluded on 31 October 2018 with the drafting of the PVC (Audit Report) that alleged substantial VAT violations by the Company for the 2014 tax period.

It is also noted that as part of the controls carried out, on 12 October 2018 the Inland Revenue sent Company questionnaire no. Q00044/2018 relating to the determination of non-deductible costs, with the aim of extending the audit to the 2013 tax period. The Company's response was sent to the relevant bodies on 7 December 2018.

Finally, it is acknowledged that following a joint consultation report (protocol no. 115820), with an assessment with acceptance on 18 December 2018 the Company accepted pursuant to and for the purposes of art. 6, para. 1 of Italian Legislative Decree no. 218/97 the proposal made by the Revenue Agency, which, pursuant to art. 54, paragraph 4, of Italian Presidential Decree 633/1972, defined without prejudice to further possible audits under the terms established by art. 57 of the same decree, VAT due for € 433,509 for undue deduction of VAT in violation of art. 19, paragraphs 2 and 4 of Italian Presidential Decree no. 633/1972. Penalties were calculated on the taxes due for a total amount of € 166,315.88 along with interest equal to € 73,871.59. Subsequently, on 19 December 2018 the Company fully paid the sums due for the 2013 tax period.

Finally, it is acknowledged that following a joint consultation report, with an assessment with acceptance on 8 May 2019 the Company accepted pursuant to and for the purposes of art. 6, para. 1 of Italian Legislative Decree no. 218/97 the proposal made by the Revenue Agency, which, pursuant to art. 54, paragraph 4, of Italian Presidential Decree 633/1972, defined without prejudice to further possible audits under the terms established by art. 57 of the same decree, VAT due for € 485 thousand for undue deduction of VAT in violation of art. 19, paragraphs 2 and 4 of Italian Presidential Decree no. 633/1972. Penalties were calculated on the taxes due for a total amount of € 182 thousand along with interest equal to € 71 thousand. Subsequently, on 17 May 2019 the Company fully paid the sums due for the 2014 tax period.

Tax audit of Acea Ato 5

On 7 March 2018 the Guardia di Finanza – Economic and Financial Police Unit of Frosinone – Section for the Protection of Public Finance commenced a general tax audit of the Company.

The audit was concluded on 25 October 2018 with the drafting of the PVC (Audit Report) that alleged substantial violations of income taxes and IRAP by the Company in the 2013 tax year.

It is also noted that on 21 December 2018 the Court of Frosinone – section of the judge for preliminary investigations notified the Company of a decree of preventive seizure (no. 3910/2018) of the financial resources present in the Company's current accounts up to the value of € 3.6 million, charging the Company with a crime under art. 4 of Italian Legislative Decree 74/2000.

On 24 December 2018 the Company produced and filed with protocol no. 77899 its own Observations regarding the PVC, drawn up according to article 12, paragraph 7 of Italian Law no. 212 dated 27 July 2000.

On 3 January 2019, the Inland Revenue – Provincial Department of Frosinone – Control office, notified the Company of assessment notice no. TKO0C6M02152/2018, with which the tax return was adjusted for IRAP for the 2013 tax period for an amount payable by the company of € 591 thousand for taxes, net of fines and interest. The findings ascertained derive from the application of art. 5 and 25 of Italian Legislative Decree no. 446/97 and in particular relate to an undue downward variation due to the use of a risk provision, the omitted accounting/declaration of positive income components as well as the undue deduction of negative income elements related to default interest. The Company appealed against this sanction before the Provincial Tax Commission of Frosinone. Based on the assessments of its tax advisors, the Company has not identified any particular risk with regard to this audit.

In any case, taxes were paid on a provisional basis pending the trial, the hearing for which was held on 3 July 2019. On 23 October 2019 sentence no. 475/1/2019 was filed by the Provincial Tax Commission of Frosinone rejecting the appeal filed by the Company against the administrative fine imposed by the Revenue Agency for violations ascertained by the Guardia di Finanza for 2013. It is the intention of the Company to challenge the aforementioned judgement and to lodge an appeal before the Regional Tax Commission. The deadline for this action is six months from the date of filing of the judgement, therefore 23 April 2020.

It is noted that the findings for IRES purposes relating to the aforementioned tax assessment report have been the subject of a separate assessment as described below.

Finally, it is noted that on 1 February 2019, having examined the request for review pursuant to art. 324 of the Italian code of criminal procedure proposed by the Company, the Court of Frosinone, having heard the parties in the Council Chamber at the hearing and dissolved the reservation, annulled the decree of preventive seizure issued by the examining judge and ordered the restitution of the seized property to the party entitled.

It should also be noted that the audit continued for the tax years 2014-2018, ending with the drafting of a further tax assessment report on 30 October 2019.

As a result of the tax audit carried out, the tax authorities found that the company had committed a series of substantial violations with regard to IRES and IRAP for the tax periods from 2014 to 2017, except for what had already been found for 2013 with the previous PVC of 25 October 2018 and partly amended.

Also in relation to this last PVC, the Company submitted specific comments and also requested the cancellation in self-protection of what is subject to adjustment for 2013.

Nevertheless, on 31 December 2019, the following were served by the Revenue Agency:

- notice of assessment no. TKQ0E6M01680 regarding IRES for 2013, for an amount of € 3.1 million for taxes, net of penalties and interest;
- notice of assessment no. TKQ0C6M01854 regarding IRAP for 2014, for an amount of € 0.9 million for taxes, net of penalties and interest;
- notice of assessment no. TKQ0E6M01853 regarding IRES for 2014 for an amount of € 5.2 million for taxes, net of penalties and interest.

The notices of assessment were served to the Parent Company Acea as consolidating company. The companies filed an appeal before the Provincial Tax Commission of Frosinone on 28 February 2020. With regard to the findings contested in said notices of assessment, supported by the opinion of their tax advisors the Companies consider the Inland Revenue's requests to be completely unfounded.

Customs verification of Umbria Energy SpA

On 15 January 2016, the Perugia Customs Office notified a payment notice to Umbria Energy in relation to a report on findings which reported the failure to pay excise duties and surcharges on electricity for the period 2010-2013 for a total amount of € 860 thousand.

Against this measure, the Company is preparing an appeal before the relevant Tax Commission to obtain acknowledgement of its correct conduct. On 4 October 2017, the Commission rejected the appeal submitted by the Company arguing the substantive relevance of the conduct upheld in terms of the application of the sanction and declared that in the event of any billing adjustments, the procedure to be applied is that of submitting a formal request for reimbursement to the Office in accordance with art. 14 of the Environment Act. The relevant sentences were promptly appealed by the Company and the corresponding judgements are currently pending before the Perugia Tax Commission, which has postponed the proceedings to be rescheduled.

With regard to the deeds challenged by the Company relating to the electricity injected for consumption in the province of Terni for the year 2010, the decision of appeal, while confirming the decision of the first instance with regard to the tax due, found that the obligation of the Office to recalculate the penalty was justified. The ruling was promptly appealed by both the Company and the Customs Agency and the relevant case is currently pending before the Supreme Court of Cassation.

An attempt at conciliation with the Customs Agency is also under way and has not yet been concluded.

It should also be noted that on 21 June 2019, the Perugia Customs Agency launched a tax audit on the correct payment of excise duties on the supply of natural gas. On 8 January 2020, the Office served a statement of findings relating to the years 2014 to 2018, contesting omitted payments of € 265 thousand. The deadlines for submitting comments are currently pending.

OTHER ISSUES

Acea Ato 5 – Injunction Order requested for credit collection on the settlement agreement of 2007 with AATO 5

With regard to the € 10,700,000 receivables for higher costs incurred in the 2003-2005 period, pursuant to the Settlement agreement of 27 February 2007, on 14 March 2012, Acea Ato 5 lodged an appeal for an injunction order concerning the receivables recognised by the AATO to the company.

Accepting the appeal, the Court of Frosinone issued Injunction Order no. 222/2012, enforceable immediately, notice of which was served to the Area Authority on 12 April 2012.

By notice dated 22 May 2012, the AATO sent notice of its opposition to the injunction order, requesting the cancellation of the order and, as a precautionary measure, the suspension of its provisional enforcement. Moreover, as a counter-claim, it submitted a claim for the payment of concession fees totalling € 28,699,699.48.

Acea Ato 5 appeared before the court in the proceedings against the injunction order, challenging the adversary's demands and in turn formulating a counter-claim for the payment of the entire amount of higher costs incurred by the Operator and originally requested, totalling € 21,481,000.00.

Following the hearing on 17 July 2012, the Judge – in an Order filed on 24 July – suspended the temporary enforcement of the injunction order, and postponed to a later date the discussion of the merits of the issue.

The judge also rejected the request for an order of payment of the concession fees submitted by the AATO.

During the hearing on 21 November 2014, the judge withdrew the reservations on the motions for admission of evidence filed by the parties and fixed the hearing for the final statements on 15 No-

vember 2016. During the hearing, the judge granted the terms for the conclusions and replies and deferred the decision on the case. In sentence 304/2017, published on 28 February 2017, the civil judge revoked the injunction decree issued in 2012, rejected the subordinate re-conventional request by Acea Ato 5 and ordered the deferral of the case in the preliminary proceedings concerning the re-conventional request by the AATO as regards the payment of the concession fees.

At the hearing of 17 November 2017, the Judge, having acknowledged the counterparty request, postponed the hearing to 27 February 2018. At the outcome of the aforementioned hearing, the new Judge who took charge of the case, having noted the discrepancies that emerged in the respective accounts of Acea Ato 5 and AATO, granted a postponement to 4 May 2018, inviting the parties to clarify the reasons for such discrepancies and specifying that if they could not the court would appoint an expert to do so. At this hearing there was a further postponement until 21 September 2018.

At this meeting, in light of the Conciliation Panel established on 11 September 2018 with AATO 5 – pursuant to art. 36 of the Management Agreement to which the question concerning the determination of concession fees was also referred, among others – the Parties asked the judge for a postponement, the hearing being scheduled for 15 February 2019, then postponed to 17 September 2019.

In connection with these proceedings, the appeal must be considered against the judgement of the Court of Frosinone that revoked the Court Order of € 10,700,000, initially issued by said Court.

The first hearing was automatically postponed to 11 May 2018. On this occasion the Court, having heard the respective positions of the parties, postponed the case to 20 November 2020 for the oral discussion and the ruling of the sentence pursuant to art. 281 sexies of the code of civil procedure.

The Company did not consider cancelling the receivable or setting aside any risk provisions for two reasons:

- the issue in question, which relates to the recognition of the amount owed by the Operator (of € 10,700,00.00) in connection with the 2007 settlement, the subject of sentence no. 304/2017 of the Court of Frosinone, appealed by Acea Ato 5 SpA to the Court of Appeal of Rome (RG no. 6227/2017), was referred to the Conciliation Board for further investigation, including legal matters;
- the legal assessments made by the lawyers illustrate, on the one hand, the validity of the appeal and, on the other hand, the fact that the nullity of the transaction does not per se determine the non-existence of the receivable.

The validity of the appeal and the decision not to cancel the receivable were further confirmed by the conclusions of the Conciliation Board, established by the Area Authority and the Operator, in accordance with the provisions of article 36 of the Management Agreement, in order to reach a settlement of the various disputes pending between the parties.

In its Conciliation Proposal sent to the parties on 27 November 2019 and currently being examined by the AATO 5 Conference of Mayors, the Conciliation Board has in fact, among other things:

- ascertained the existence of significant differences between the concession fees approved in the various tariff arrangements and the amounts to be paid to the Municipalities. In the opinion of the Board, the actual existence of such differences leads one to believe that Resolution no. 4/2007 of the Area Authority was based on credible elements, also found afterwards, where it identified the “savings on the concession fees to be paid to the Municipalities” (which could constitute the financial funding to pay a loan stipulated by the Area Authority) as the financial coverage for the payment to the Operator of the sums envisaged in the settlement. This conclusion, highlighting the plausibility of the sources of coverage identi-

fied by the Area Authority to finance the settlement, confirms the validity of the appeal filed by the Company against sentence no. 304/2017, by which the Court of Frosinone declared the nullity of Resolution no. 4/2007 of the Area Authority and of the settlement agreement precisely because of the alleged failure to identify the related financial coverage in violation of the disclosure regulations, since the reference to “unspecified savings on the concession fees to be paid to Municipalities” was not considered adequate and sufficient;

- considered that there are valid and grounded reasons to grant the Operator’s request for recognition of higher operating costs incurred in the three-year period 2003-2005 to the reduced extent agreed to by the parties in the settlement, thus confirming the existence of the corresponding receivable in the Company’s financial statements.

Acea Ato 5 – ASI Consortium

The ASI Consortium filed two injunction decrees for the reimbursement of the portion of the treatment service carried out on behalf of Acea Ato 5 (case value € 14,181,770.45). The two decrees were opposed by the Company which, in turn, submitted an application for the supply of water for industrial use provided to the Consortium. Specifically:

- With regard to the proceedings instituted following appeal 3895/2013 (value of the judgement € 7,710,946.06), the parties to the proceedings approved the settlement plan and on 15 May 2018 the final settlement agreement was signed between Consorzio ASI, Acea Ato 2 and Acea Ato 5;
- with reference to the judgement following appeal no. 3371/2016 (judgement value € 6,470,824.39), the judge postponed the hearing until 8 February 2019. On that occasion, as negotiations are still in progress between the parties for the settlement of the case, a further postponement was ordered to 25 June 2019, 22 November 2019 and subsequently to 31 March 2020.

At the same time, during the aforementioned settlement discussion, the opportunity emerged to transactively define reciprocal debit/credit positions for the 2016-2017 period, as well as the opportunity to reach the settlement of a framework agreement aimed at regulating – starting from 2018 and for the future – the water supply service provided by Acea Ato 5 to the ASI Consortium, as well as the sewerage and treatment service rendered by ASI for Acea Ato 5. With regard to this last aspect, on 9 January 2019 an agreement was signed by the Parties.

Conversely, no final agreement has yet been reached for the period 2012-2017. The objective, of course, is to seek an amicable solution for the settlement of mutual credit relations. As of today, a solution is being studied that foresees the possibility for the Company to acquire the assets of the ASI Consortium, specifically the water network, upon payment of consideration that will be quantified at the outcome of an estimate calculated by mutually trusted parties or through compensation of the payable exceeding the differential between two other solutions.

Such a resolution would increase the number of user accounts served by the IWS operator, with consequent positive impacts also on the tariff, to the benefit of all AATO 5 users.

It is clear that such an operation having inevitable repercussions on the water tariff – both in terms of costs (the purchase of the water network by Acea Ato 5 should be remunerated in the IWS tariff) and benefits (for the reasons highlighted above) – requires the prior consent of AATO 5.

Acea Ato 5 – Lazio Regional Administrative Court appeal of contract termination

With regard to the matter of the termination of the Management Agreement, we are awaiting rulings on the appeals filed by several

Municipalities of the Ato 5 against sentence no. 638/2017 by which the Lazio Regional Administrative Court – detached section of Latina upheld the appeal filed by the Company against resolution no. 7 of 13 December 2016 of the Conference of Mayors that ordered the resolution, annulling the measure.

It should be noted that the aforementioned appeals do not present any arguments of particular novelty or relevance with respect to what has already been submitted for the examination of the Court of First Instance, nor have the appellants proposed an application for interim relief. In any case, the Company filed the formal documents for both disputes, for which as of today there is no information regarding the scheduling of the hearing.

For more details on the contents of the proceedings mentioned, see the paragraph entitled “Information on concession arrangements”.

Acea Ato 5 – Municipality of Atina – City Council Resolution no. 14 of 17 April 2019

Following the transfer of the management of the IWS of the Municipality of Atina to Acea Ato 5, which took place as of 19 April 2018, the Municipality decided to “establish the optimal territorial sub/area called Atina Territorial Area 1, with reference to the optimal territorial area no. 5, for the continuity of the autonomous and direct management of the water service pursuant to art. 147 paragraph 2 bis of Italian Legislative Decree 152/2006, declaring the Integrated Water Service <local public service without economic importance>” (Municipal Council resolution no. 14 of 17 April 2019).

AATO 5 appealed the above resolution before the Lazio Regional Administrative Court – Latina Section – also serving the Company and the Lazio Region.

As far as Acea Ato 5 is concerned, while the legal action taken by the AGB is suitable to protect the interests of the Operator, the Company has deemed it appropriate to file suit.

The case is docket RG 503/2019 and the hearing has yet to be scheduled.

Acea SpA – SMECO

With a writ served in the autumn of 2011, Acea was summoned to court to answer for alleged damages that its alleged non-compliance with unproven and non-existent obligations that are assumed to have been part of the shareholders’ agreement regarding the subsidiary A.S.A. – Acea Servizi Acqua, by its minority shareholders and their respective shareholders. The petition is for more than € 10 million.

With sentence no. 17154/15 of 17 August 2015, the Court rejected the application in its entirety and sentenced the parties jointly and severally to the reimbursement of Acea for legal expenses. On 1 October 2015, SMECO lodged an appeal to the 2nd Section of the Court of Appeal of Rome. After a number of postponements, the hearing to clarify the conclusions was set for 3 November 2020.

Acea SpA – Milano ’90

This issue concerns the failure to pay sums due for the balance of the sale price of the area in the Municipality of Rome with access from via Laurentina no. 555, formalised with a deed dated 28 February 2007 and with a subsequent supplementary deed of 5 November 2008. With the supplementary deed, the parties agreed to change the fee from € 18 to 23 million, while eliminating the earn out, setting 31 March 2009 as the payment deadline.

Given the purchaser’s failure to act, the procedure to collect the amounts due was initiated by preparing a notice pay addressed to Milano ’90 and through application for an injunction order which, on 28 June 2012, was granted in a temporarily enforceable form. Therefore, in November 2012, Acea served a garnishment order to the company Milano ’90 for the forced recovery of the amounts claimed. Milano ’90 opposed the aforementioned injunction – also requesting the condemnation of Acea for the restitution of sums paid

as a price and compensation for damages – obtaining the suspension of its provisional execution.

Consequently, the enforcement procedure was in turn suspended. By judgement no. 3258, published on 13 February 2018, the Court of Rome rejected the opposition and confirmed the court order in full, sentencing Milano '90 to pay for the costs of the dispute.

Judgement of Appeal

On 26 April 2018, Milano '90 filed an appeal against the above judgement. As a result of the oral hearing, with an order dated 25 October 2018 the Court of Appeal rejected the request for suspension, postponing the specification of the conclusions to 16 July 2020.

Executive procedure

Following the favourable first instance ruling, on 27 March 2018 Acea filed the appeal for the resumption of the enforcement procedure against Milano '90 and the garnishment order and the hearing was postponed to 9 October 2018 for the appearance of the parties and the prosecution. As a result of this hearing, the Judge ordered a postponement for the possible assignment of the foreclosed sums pending the decision of the Court of Appeal on the injunction of the contested judgement. The hearing was last adjourned to 27 November 2019 and the judge put in place conditions. With order dated 11 February 2020 the enforcement judge cancelled the previous conditions and ordered the allocation of € 6,445,687.75 plus legal costs and interest in favour of Acea.

Acea SpA – Trifoglio Srl

The complex dispute consists of a case filed as a plaintiff and also a case appearing as a defendant, joined in 2015 before the Judge with whom the case filed as a plaintiff was pending.

Case filed as a claimant: this issue concerns the breach by Trifoglio of its obligation to pay the balance of the amount due (€ 10.3 million), pursuant to the sale contract regarding the so-called Autoparco property, which should have been paid on 22 December 2011. In consideration of Trifoglio's breach, a notice was served aimed at signing a deed to voluntarily terminate the sale agreement of 22 December 2010, and then to file a claim before the Court of Rome, pursuant to art. 702-bis of the Code of Civil Procedure. In the meantime, ATAC Patrimonio filed a claim for the termination of the sale agreement of 22 December 2010 for the portion for which it is responsible.

Cases as a defendant: Trifoglio has notified Acea and ATAC Patrimonio a writ of summons aimed at assessing the invalidity of the deed of purchase and sale and recognition of compensation for damages in the amount of approximately € 20 million.

By judgement no. 11436/2017 of 6 June 2017, the Court of Rome declared the nullity of the contract of purchase and sale, substantially upholding the petition of Acea aimed at having the contract wound up with Trifoglio and recovering ownership of the area, arranging for the return to Trifoglio of the deposit-price received (Euro 4 million); it also rejected the request for compensation for damages made by Trifoglio and excluded any liability of Acea with regards to the truthfulness of the contractual guarantees offered to Trifoglio. On 8 August 2017 Trifoglio filed an appeal, with a hearing for conclusions set for 2 April 2020.

Acea SpA – Former COS rulings

The COS dispute concerns the ascertainment of the illegality of the contract between ALMAVIVA Contact (formerly COS) and Acea and the consequent right of its workers to be recognised as having a subordinate employment relationship with Acea. It should be noted that the majority of the cases in which Acea was unsuccessful were settled, and that of the six claimants only two

were brought before the Court of Cassation by Acea to assess the existence of a claim (i.e. the assessment of the right to establish a relationship), both heard on 4 April 2019 by the Council.

These judgements were settled by dismissal orders – made on 2 and 10 July 2019 – of Acea's application. The establishment of the employment contract between Acea and the opposing parties as from 2004 is therefore confirmed.

The workers – who have so far claimed the differences in pay for lack of performance – have therefore started to work concretely at Acea800 as of 3 February 2020 following a posting to this company, despite having established the relationship with Acea, in execution of the court order.

Based on the judgements concerning the an debeatore, the six workers who won their cases (i.e. with whom a subordinate employment relationship with Acea was established) have over time introduced judgements quantifying their claims, requesting the payment of the wages due as a result of the established relationship and regarding different periods of accrual of the alleged claims, which have led to disagreements that are pending at various levels of jurisdiction. In detail, with regard to the number of cases currently pending at the Court of Cassation, a first judgement was settled with a sentence in favour of Acea on 31 October 2018, against which the counterparties appealed for revocation by means of a document served on 30 April 2019. One other quantification judgement is still pending with the Court of Justice.

Finally, another quantification of the pay differences accrued between 2010 and 2014 proposed by the workers themselves is pending before the Court of Appeal of Rome, and during the last hearing, held on 25 June 2018, the Court of Appeal deemed it appropriate to suspend it pending the rulings of the Court of Cassation on the an debeatore of the claim (see above), which took place in July 2019 and as a result of which the case has been resumed and is currently pending with a hearing in March 2020.

Acea SpA and areti SpA – MP 31 Srl (formerly Armosia MP Srl)

This is a challenge to the injunction issued by the Court of Rome – General Docket 58515/14 against areti for the amount of € 226,621.34, requested by Armosia MP by way of lease payments for the months of April-May-June of 2014 in relation to the property in Rome – Via Marco Polo 31. The injunction was declared provisionally enforceable by order of 8 July 2015.

In the hearing on 17 February 2016, the Judge adjoined this case with the other pending before the Court of Rome, taken by Acea and areti (transferee of the lease contract) in order to obtain the termination of the lease contract. In this latter case, MP 31 has also filed an unconventional remand for compensation for the damages incurred in consideration of the degrading condition of the building when it was released by areti. With a sentence dated 27 November 2017 the Court upheld the application of MP 31 against areti, condemning it to the payment of the previous rent in the amount of € 2,759,818.76 plus interest from the individual deadlines, as well as the payment of the rent up to contract expiry (29 December 2022). As a result, there are no further charges to the company.

Acea filed an appeal, served on 2 January 2018.

The appeal hearing has been set for 16 April 2020.

Acea SpA and Acea Ato 2 SpA – CO.LA.RI.

With a writ of summons served on 23 June 2017, Co.La.Ri. Consortium and E. Giovi Srl – manager of the landfill at Malagrotta (RM) and executor respectively – summoned Acea and Acea Ato 2 in order to obtain from the defendants the payment of the portion of the tariff for accessing the landfill to be allocated to hedge the thirty-year management costs for same – established by Legislative Decree 36/2003 – assertively due for the conferment of waste during the period of contractual validity 1985-2009.

The main request stands at over € 36 million for the entire period

of contract validity. Subordinately, in the event that the law disposing the tariff is considered by the judge to be applicable retroactively, the plaintiffs request the recognition of the right to receivables of approximately € 8 million for the period March 2003-2009, and the ascertainment, by expert appraisal, of the receivables for the previous period 1985-2003.

The first hearing, initially set for 23 February 2018, was postponed to 8 October 2018 to add the dispute against the Optimal Territorial Area Authority 2 Central Lazio – Rome. As a result of this hearing, the judge granted the terms under 183 of the Code of Civil Procedure and scheduled the subsequent preliminary hearing for 28 March 2019, then postponed until 12 November 2019. On that date the judge set the hearing for conclusions on 27 October 2020.

Acea Ato 2 SpA – Regulation of the hydrometric level of Lake Bracciano

The Ordinances issued by the Director of the Regional Directorate for Water Resources, Soil Protection and Waste no. 0375916 of 20 July 2017 and no. 0392583 of 28 July 2017 concerning the Regulation of the hydrometric level of Lake Bracciano were both challenged by Acea Ato 2 before the Superior Court of Public Waters (TSAP) with separate appeals.

At the hearing before the Investigating Judge held on 24 January 2018, it was requested that the matter of the dispute be dismissed, in consideration of the subsequent Determination of the Regional Director for Water Resources, Soil Protection and Waste no. G18901 of 29 December 2017 concerning “Supply of the basin of Lake Bracciano as a strategic water reserve and seasonal compensation for drinking water. Taking note of the will of Acea Ato 2 not to activate the derivation of the Lake of Bracciano”. The hearing before the Court for the declaration of the dismissal of the dispute is scheduled for 28 November 2018 and as a result of the same the TSAP declared, for both judgements, the impossibility to proceed with the appeal due to supervening lack of interest.

The same for the aforementioned regional provision no. G18901 dated 29 December 2017, Acea Ato 2 proposed an appeal, with a request for suspension, before the TSAP. With a ruling of 6 August 2019, the Superior Court of Public Waters rejected the appeal brought by Acea, while pointing out that it cannot be prevented from carrying out temporary and controlled withdrawals from the lake, strictly related to the carrying out of conservative maintenance actions aimed at minimising the risks of water potability. In October 2019, Acea Ato 2 appealed to the United Sections of the Supreme Court of Cassation in order to protect the concession. Currently we are awaiting the scheduling of the hearing.

Acea Ato 2 SpA and Acea Ato 5 SpA – Challenge to Regional deliberations concerning the identification of the Optimal Territorial Areas of the Hydrographic Basin

With an appeal lodged before the Superior Court of Public Waters of Rome, Acea Ato 2 challenged the regional resolutions concerning the identification of the Optimal Territorial Areas of the Hydrographic Basin (GRL resolution no. 56 of 6 February 2018, GRL resolution no. 129 of 20 February 2018, GRL resolution no. 152 of 2 March 2018). A similar appeal was also proposed by the Optimal Territorial Area Authority no. 2 Central Lazio. With resolution no. 218 of 8 May 2018, the Lazio Region suspended the effectiveness of the challenged resolutions, delegating to the Regional Director of Water Resources and Soil Defence any activity useful for achieving a new governance model for the IWS during the following six months. Therefore, at the hearing of 11 July 2018 the case was postponed to 6 February 2019, pending the new assessments of the Region on the matter, announced in the provision that suspended the contested acts. Subsequently, the Region issued resolution no. 682 of 20 November 2018 with which it has extended the deadline

for the definition of the new IWS model, confirming the suspension of the effectiveness of the challenged resolutions. There have been a number of postponements, and most recently the hearing was set for 9 September 2020. A similar appeal was filed by Acea Ato 5 SpA and, in this case as well the hearing was postponed to 9 September 2020 due to the ongoing suspension of the contested measure and, in any case, the Region’s ongoing investigation.

Acea Ato 2 SpA – Parco dell’Aniene Scarl

In June 2019 the company Parco dell’Aniene Scarl sued Acea Ato 2 and Roma Capitale for alleged liability of the defendants, jointly and severally or to the extent to which they are responsible, for alleged wrongful acts arising from the failure to build and/or repair the sewerage system prior to the construction works carried out by the claimant in the Tor Cervara – Via Melibeo area. The consortium is making an exorbitant claim for compensation, totalling more than € 105 million. The Judgement is currently pending before the Court of Rome and the first hearing was postponed to 7 October 2020 to allow the summons of the third parties involved. Although it is premature, at the moment it can be said that the claim appears to be exaggerated and probably even of doubtful foundation.

areti SpA – Gala SpA

The pending disputes generated by the complex matter are summarised below.

Precautionary measures

Against the enforcement of guarantees issued, on 12 April 2017 Gala filed a cautionary appeal as per art. 700 of the Code of Civil Procedure against the collection on 12 April, obtaining a decree *inaudita altera parte*, which initially prevented areti from exercising its right to collect the guarantees. This decree was thereafter revoked by court order of 30 May 2017, which fully recognised the rights of areti.

On 1 June 2017, given the continuation of the serious breach of contract, areti notified the termination of the transport contract and also the collection of the additional contractual guarantees.

On 6 June, Gala appealed against the cautionary ordinance of 30 May and, again, on 9 June, submitted a second independent appeal for urgent measures before the Court of Rome, requesting a declaration of invalidity of the termination ordered on 1 June 2017 and initially obtaining the issuing of a decree *inaudita altera parte* in its favour.

On completion of both legal proceedings, the reasoning of areti was again completely recognised, with the issuing on 12 July of a board ordinance rejecting the appeal, following which the judge, called upon to decide on the second appeal as per art. 700 of the Code of Civil Procedure, asked the parties not to appear at the hearing, declaring that the appeal could not continue by ordinance of 13 July 2017.

The first judgement filed by the guarantor Euroins Insurance plc and the injunction issued in favour of GSE SpA

In July 2017, Euroins Insurance plc, guarantor of Gala, independently introduced assessment proceedings to have declared the non-existence of its guarantee obligation; areti requested right from the first hearing of appearance of 28 December 2017 to have that judgement consolidated with the ordinary judgement of opposition to the injunction order of the GSE (see below): the hearing of first appearance was set for March 2019.

GSE SpA, after notifying areti to pay the general system charges due by Gala, even if it has not been paid, requested and obtained from the Court of Rome an injunction, not immediately enforceable, against areti for payment of part of these charges. The injunction was promptly opposed by areti with a writ of summons served to GSE and inscribed in the rolls in December 2017, with the simultaneous summons, as a guarantee, of Gala and its guarantors (China Taiping Insurance (UK) Co. Ltd and Insurance Company Nadejda), the first hearing scheduled for March 2019.

Note that in July 2018, in view of access to the mechanism provided for by ARERA resolution no. 50/2018/R/EEL of 1 February 2018 for “recognition of charges that would otherwise not be recoverable for failure to collect general system charges”, areti paid the GSE the sum specified in the opposed injunction. Both judgements are currently pending before Section XVII of the Court of Rome with the same judge, and a postponement of the hearing to 25 November 2020 has been ordered.

Gala’s citation to areti, Acea Energia SpA and Acea SpA

By means of a summons served in March 2018, Gala requested the Court of Rome to declare the invalidity of some clauses of the transport contract stipulated with areti in November 2015 and the consequent invalidity/ineffectiveness of the termination of the contract by areti, ordering the latter to pay the corresponding damage, for a total of about € 200,000,000.00.

Gala also requested that the behaviour of areti and other defendant companies – Acea SpA and Acea Energia SpA – be declared acts of unfair competition, condemning them to pay the corresponding damages. The companies of the Acea group that were sued acted within the terms of the law, denying the opposing claims and requesting their rejection.

In addition, as a counter-claim, areti has requested to declare the contract legitimately terminated, as well as to ascertain and declare the non-fulfilment of Gala of the payment and guarantee obligations assumed under the transport contract with consequent order to pay the related amount, plus interest and without prejudice to the additional amounts being accrued.

The judgement is currently pending before the 17th civil section of the Court of Rome and on 5 November 2018 the Designated Judge assigned to the Parties the terms for the presentation of their briefs pursuant to art. 183, paragraph 6 of the Code of Civil Procedure starting from 9 December 2018 and set the hearing for 12 May 2021 for the clarification of the conclusions, without prejudice to any preliminary investigation to be carried out. By decree of 13 June 2019, the Investigating Judge ordered an official technical consultancy. The expert operations started on 17 September 2019 and are still ongoing.

Appeal for Cassation against sentence no. 5619/2017 of the Council of State on System Charges

It should also be noted that with sentence no. 5619/2017, the Council of State pronounced itself on general system charges, general ARERA regulation and traders’ obligations; this sentence was challenged by areti with recourse to the United Sections of the Court of Cassation in January 2018, pursuant to articles 111, paragraph 8 of the Italian Constitution, 362 and 382 of the Italian Code of Civil Procedure and 110 of the Italian Civil Code, for overriding the jurisdictional function. By Order of 29 November 2019, the Supreme Court declared the action brought by areti to be inadmissible due to lack of capacity to sue.

areti SpA – Metanewpower

In November 2015, in its capacity as operator of the electricity distribution network, areti entered into a transport contract with Metanewpower, which operates in the sale of electricity to end users, a contract it repeatedly breached.

Judgement on guarantees

With summons served on 7 September 2018, Metanewpower (MNP) challenged the legitimacy of the contractual conditions for the transport of energy and the system of guarantees required by the distributor for the failure to pay the system charges regardless of the actual collection from the end customer, claiming compensation for damages due to the performance of the guarantees for about € 2.0 million. In the course of the pro-

ceedings, precisely in December 2019, MNP amended its claim for damages, quantifying them at over € 34.0 million. The preliminary hearing is set for 7 October 2020.

In the meantime, due to the serious breach of contractual obligations, on 8 October 2018 areti notified MNP of the termination of the transport contract.

Precautionary measure

With an urgent ante causam appeal pursuant to art. 669 bis and 700 of the Italian Criminal Code, MNP brought an action before the Court asking it to order the suspension of the effects of the termination for non-fulfilment of the transport contract ordered by areti and of the request for enforcement of the guarantee policy issued by MNP on 26 September 2018, ordering areti to restore the execution of the energy transport contract.

By order of 15 November 2018, the Investigating Judge, lifting the reservation on the outcome of the hearing of the parties, granted the precautionary measure, recognising from a marginal standpoint the violation of the distributor’s duty to cooperate despite Metanewpower’s default, each party paying their own legal expenses.

Ordinary Judgement

Following the conclusion of the precautionary phase, with a summons served on 5 December 2018, MNP instituted ordinary proceedings, contesting the validity of the contractual clauses and claiming compensation for damages due to the annulment of the termination of the contract following the aforementioned Court order. The request amounts to over € 13.0 million. The first hearing was set for 26 March 2020.

Recovery of areti’s receivable from Metanewpower

On 30 May 2019, following MNP’s continuing breach, areti ordered a new contractual termination and initiated the recovery of its receivable, obtaining the issue of an injunction for the amount of approximately € 3,850,000.00 by way of default. MNP – for the same reasons mentioned above – lodged a challenge to the injunction and the first hearing is scheduled for 14 May 2020.

Gori SpA – Consorzio di Bonifica Integrale del Comprensorio Sarno

The Consorzio di Bonifica Sarno sued the Company to order it to pay over € 20 million in concession fees due for the use of the consortium channels used to deliver the wastewater produced in the area under the Company’s management. In particular, this quantification was derived from the acts of the Consortium, which unilaterally fixed the percentage of 45% (and then 26/62% from 2013) as part of the contribution relating to the collection of wastewater pertaining to Gori. In this regard, it should be noted that, as things stand, the agreement between the Consortium and Gori has not yet been defined (and therefore stipulated), so that the request for payment for breach of contract due to the absence of a contract, which is necessary in relations with a public administration like the Consortium, would appear unfounded. Moreover, the Company also highlighted the substantial irrelevance of the “benefit” received for the use of the consortium network. Moreover, in addition to the necessary contractualisation of the relationship, it is necessary that Ente Idrico Campano – i.e. the public administration competent according to the law – provide for the coverage of the alleged costs for concession fees (once the relevant calculation methods have been defined) in the IWS tariff of the Ato 3. Moreover, such costs – qualified as “updatable operating costs” pursuant to art. 27 of Annex A to the resolution of ARERA 664/2015/R/idr – are always recognised by the local regulatory authority (i.e. Ente Idrico Campano) and by the national regulatory authority (i.e. ARERA). That said, the Court considered it necessary to entrust a technical consultant with the task of “quan-

tifying any amounts owed by the defendant Gori for consortium charges in relation to what was deducted in [the Consortium's] application on the basis of such obligation and the period of reference, including distinguishing the amounts year by year", "after examining the documentation produced and taking into account what was found therein". In the course of the expert appraisals, given the impossibility of determining a "contribution" that would have to be agreed upon during negotiations, the court-appointed expert asked the parties to produce documents and calculations in order to arrive to quantify the contribution due by the Company based on a logic specified by the expert. With the objection of the Consortium's legal counsel on the production of new documents, the expert concluded the appraisal, declaring that it was not possible to answer the questions based on the documents in the record alone. However, the expert filed a report declaring that it was impossible to quantify the contribution borne by Gori in proportion to the benefit based on a methodology consistent with the legislation of reference, but did not identify an amount of over € 8 million which is the tax on the collection of wastewater borne by all members "without being able to specify the amount owed by Gori" pursuant to art. 13, paragraph 5 of Italian Law 4/2003 of the Campania Region for the years 2008-2016, lacking "any measure whatsoever regarding the direct benefit obtained and the flow of water discharged by Gori". The case was adjourned to a hearing on 11 November 2019 to allow the designated expert to clarify the criteria used in the report submitted. A review hearing is currently pending.

Gori SpA – Update of the 2016-2019 regulatory framework of the Sarnese-Vesuvian District of the Campania Region

Preliminarily, it is clarified that the ARERA has determined: a first transitional tariff method for the years 2012 and 2013 (which entirely replaced the previous "normalised method" referred to in Italian Ministerial Decree LL.PP. 1 August 1996), issued with resolution 585/2012/R/idr ("Transitional Tariff Method" or "MTT"); a second water tariff method for the years 2014 and 2015 issued with resolution 643/2013/R/idr ("Water Tariff Method" or "MTI"); a third and currently applicable water tariff method for the second regulatory period 2016-2019 implemented with resolution 664/2015/R/idr, as amended by subsequent resolution 918/2017/R/idr ("Water Tariff Method - 2" or "MTI-2").

Based on the tariff method implemented by the Authority, the Area Governing Body is required to prepare the Regulatory Scheme for the period of reference, which is then approved by the Authority.

In fact, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, in execution of the ARERA 664/2015/R/idr resolution, prepared the 2016-2019 Regulatory Scheme with resolution no. 19 of 8 August 2016 and then updated it, in execution of the ARERA 918/2017/R/idr resolution, with resolution no. 39 of 17 July 2018. With this last resolution: 1) the RCappr adjustment component was valued at € 216,948,037; 2) the Operator's Revenue Constraint ("VRG") for the years 2016 was recognised (VRG: € 167,958,694); 2017 (VRG: € 183,072,979), 2018 (VRG: € 197,001,101) and 2019 (VRG: € 206,352,671) as well as the corresponding "tariff multipliers" for the 2018 financial years (1.247505) and the 2019 financial year (1.309880); 3) it was decided to allocate the FoNI quota already envisaged for the year 2017 and not yet used to finance tariff reductions of a social nature; 4) the additional Water Bonus was established with the valuation of the OPsocial cost component for the years 2018-2019; 5) table no. 2 was updated relating to accruals, amortisation and separate loans for Municipalities of Ato 3. In addition, the 2016-2019 Regulatory Scheme updated with Resolution 39/2018 was prepared on the basis of a plan aimed at the full implementation of

the IWS of the Sarnese-Vesuvian District that guarantees, concurrently with economic-financial equilibrium: (a) the social sustainability of the IWS tariff applied to users, (b) the investments necessary for the improvement of the service as well as (c) the recovery of accumulated tariff adjustments. For these purposes, the current Ato 3 Regulatory Scheme has established the following objectives to be achieved to ensure, as mentioned, the full implementation of the IWS: 1) the transfer and increased efficiency of the "Regional Works", and, that is, it underlines, the water infrastructure falling within Ato 3 still under the management of the Campania Region and listed in the resolution of the Regional Council 243/2016; 2) re-employment and relocation – always with a view to making the IWS more efficient – the personnel assigned to the Regional Works in accordance with the procedures set forth in the agreements with the Trade Unions on the basis of aforementioned resolution 243/2016 and the relevant Framework Agreement of 3 August 2018 specified above; 3) the provision of instalment plans for the debts accrued by the Company – essentially due to the inadequacy of the tariff system effectively applied until 2016 – for wholesale supplies disbursed from 2013 onwards to the Campania Region and the concurrent resolution of the complex legal dispute arising from the payment of regional supplies of "wholesale water" and services of "collection and treatment of wastewater". The 2018 financial year was characterised by the definition and normalisation of relations between the Company and the Campania Region (as well as its concessionaire for collections, Acqua Campania SpA) with regard to regional supplies of "wholesale water" and "wastewater collection and treatment services" for the period from 1 January 2013 to the second quarter of 2018.

Refer to the entire contents of the paragraph "Service Concession Arrangements" also for information on the financial effects deriving from the conclusion of the recognition of equalisation measures.

Proceeding AGCM A/513

On 8 January 2019, the Antitrust Authority notified Acea SpA, Acea Energia SpA and areti SpA of the final order for Proceeding A/513.

With this order, the Authority ruled that the aforementioned Group companies had committed an abuse of a dominant position – qualified as very serious and of duration quantified in 3 years and 9 months – consisting in the adoption of a broad exclusionary strategy realised through the illegitimate use of a series of prerogatives possessed solely by virtue of its position as an integrated operator in distribution, in order to compete with its competitors in the acquisition of electricity sales contracts in free market conditions.

In view of the gravity and duration of the infringement, the Authority ordered Acea SpA, Acea Energia SpA and areti SpA to pay an overall pecuniary administrative fine of € 16,199,879.09.

Fully convinced of the illegitimacy of the measure imposed, two administrative appeals were filed before the Lazio Regional Administrative Court, one brought by Acea Energia and the other by Acea SpA. The hearing on the merits of both judgements was held on 2 October 2019, and on 17 October 2019 the appeals were upheld with separate sentences and the fine was therefore annulled.

With appeals served on 17 January 2020, the AGCM filed an appeal before the Council of State and is awaiting the setting of a hearing.

The Directors consider that the settlement of the ongoing dispute and other potential disputes should not create any additional charges for Group companies, with respect to the amounts set aside (note 28 a on the Provision for risks and charges).

These allocations represent the best estimate possible based on the elements available today.

ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

CLASSES OF FINANCIAL INSTRUMENTS

The following table shows the breakdown of financial assets and liabilities required by IFRS 7 based on the categories defined by IFRS 9.

€ thousand	FVTPL	FVTOCI	Amortised cost	Balance sheet value	Explanatory Notes
Non-current fixed assets	49,974			49,974	
Other equity investments	2,772	0	0	2,772	21
Financial assets	47,202	0	0	47,202	23
Current assets	0	0	1,527,631	1,527,631	
Trade receivables	0	0	1,035,462	1,035,462	25
Other current assets: fair value evaluation of differential and swap contracts on commodities with effect on the shareholders' equity			0	0	25
Current financial assets	0	0	299,212	299,212	25
Other current assets			192,957	192,957	25
Non-current liabilities					
Bonds	0	182,017	2,572,281	2,754,298	29
Payables to banks	0	126,628	614,578	741,206	29
Current liabilities					
Payables to banks	0	0	541,950	541,950	31
Financial Payables			132,414	132,414	31
Other current liabilities: fair value evaluation of differential and swap contracts on commodities	330	5,593			31
Trade payables			1,600,263		31
Other liabilities			308,490		31

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of securities not listed on an active market is determined using the valuation models and techniques prevailing on the market or using the price provided by several independent counterparties.

The fair value of medium/long-term financial assets and liabilities is calculated on the basis of the risk less and the risk less adjusted interest rate curves.

It must be noted that for trade receivables and payables with contractual expiry within the financial year, the fair value has not been calculated as their book value approximates the same.

In addition, fair value is not calculated when the fair value of financial assets and liabilities cannot be objectively determined.

TYPES OF FINANCIAL RISKS AND RELATED HEDGING ACTIVITIES

Foreign exchange risk

The Group is not particularly exposed to this type of risk, which is concentrated in the conversion of the financial statements of its overseas subsidiaries. As regards the 20 billion Yen Private Placement, the exchange rate risk is hedged through a cross currency swap described in the section on interest rate risk.

Market risk

The Group is exposed to market risk, represented by the risk that the fair value or future cash flows of a financial instrument fluctuate as a result of market price movements, above all in relation to the risk of movements in the prices of commodities in which the Group trades.

Through the activities carried out by the Commodity Risk Control Unit of the Finance Unit within the Administration, Finance and Control department, Acea ensures the analysis and measurement of exposure to market risks, interacting with the Energy Management Unit of Acea Energia SpA, verifying compliance with the limits and criteria adopted by the General Risk Management of the Commercial and Trading Industrial Segment and by the Administration, Finance and Control Department in line with the Acea SpA's "Guidelines for the Internal Control and Risk Management System" and the specific procedures approved in 2019.

The analysis and management of risks is carried out according to a second-level control process that involves the execution of activities throughout the year with different frequency (annual, monthly and daily), carried out by the Commodity Risk Control Unit and by Risk Owners. Specifically:

- **every year**, the measures of the risk indicators, i.e. the limits in force, must be reviewed and respected in the management of the risks;

- **every day**, the Commodity Risk Control Unit is responsible for verifying the exposure to market risks of the companies in the Commercial and Trading Industrial Segment and for verifying compliance with the defined limits.

The reports are sent to the Top Management on a daily and monthly basis. When requested by the Internal Control System, Commodity Risk Control prepares the information requested and available to the system in the format appropriate to the procedures in force and sends it to Acea SpA's Internal Audit Unit.

The risk limits of the Commercial and Trading Segment are defined in such a way as to:

- minimise the overall risk of the entire segment;
- guarantee the necessary operating flexibility in the provisioning of commodities and hedging;
- reduce the possibility of over-hedging deriving from the variation in expected volumes for the definition of hedges;
- ensure the necessary operational flexibility for trading activities not related to industrial needs.

Market risk can be distinguished between the "price risk", i.e. the risk connected with changes in the prices of commodities, and the "volume risk", i.e. the risk connected with changes in the volumes effectively sold with respect to those envisaged by contracts of sale to end customers (sales profiles).

Forward contracts (for physical transactions for the purchase and sale of commodities) are stipulated to meet the expected requirements deriving from the contracts in the portfolio or for transactions not involving sales to end customers.

The risk hedging strategy adopted by the Commercial and Trading Industrial Area also aims to minimise the risk associated with the volatility of the Income Statement deriving from the variability of market prices and ensure correct application of the Hedge Accounting (in accordance with current International Accounting Standards) to all derivative financial instruments used for such purpose.

As regards the commitments undertaken by the Acea Group to stabilise the cash flow from purchases and sales of electricity for the next year, it should be noted that all of the ongoing hedging operations are recorded in the accounts using the flow hedge

method, as far as the effectiveness of hedging can be demonstrated. The financial instruments used are of the swap and contracts for difference (CFD) type.

The evaluation of risk exposure involves the following activities:

- recording of all transactions involving physical quantities carried out in special books (known as Commodity Books) differentiated according to the purpose of the activity (Sourcing on wholesale markets, Portfolio Management, Sale to internal end customers inside and outside the Acea Group, Trading not linked to industrial needs) and commodities (e.g. Electricity, Gas, EUA) and nature of the operations (physical and financial);
- accurate analysis of the time profile of the purchases and sales containing the open positions, in other words exposure of the physical purchase and sale of single commodities, within set volume limits;
- creation of scenarios of reference (prices, indices);
- calculation of risk indicators/metrics (Volumetric exposure, VAR, PAR, price range);
- verification of compliance with current risk limits.

The activity performed by the Commodity Risk Control Unit provides for daily codified checks at "event" on compliance with risk procedures and limits (also for purposes of compliance with Law 262/05) and reports to the Top Management any discrepancies detected during the phases of checks, so that measures can be adopted to be within the established limits.

The Finance Department reports to the Managers on any discrepancies noted during controls, so that all measures suitable to limiting/eliminating the risk connected with exceeding this limit, can be adopted.

The objectives and policies for market risk, counterparty credit risk and regulatory risk management are detailed in the relevant section of the Report on Operations, to which reference is made.

It should be noted that the hedges effected on the purchases and sales portfolio were conducted with leading operators in the electricity market and the financial sector. Below, in accordance with former article 2427-bis of the Italian Civil Code, is the information necessary for the description of transactions carried out, aggregated by hedged index, effective as of 1 January 2019.

Swaps	Purposes	Purchases/Sales	Fair Value in € thousand	Portion recognised to shareholders' equity	Portion recognised in the income statement
GM_PUN_c		Electricity and gas purchases			
FE_PSV_u	Hedge power portfolio	and sales	5,593	5,593	0

The Group determines the classification of financial instruments at fair value, in accordance with the provisions of IFRS 13. The fair value of the assets and liabilities is classified in a fair value hierarchy that envisages three different levels, defined as follows, according to the inputs and valuation techniques used to measure fair value:

- level 1: prices listed (not adjusted) on a market for identical assets and liabilities;
- level 2: inputs other than listed prices pursuant to level 1, which can be observed for the asset or liability, both directly and indirectly;
- level 3: inputs not based on observable market data. This note provides some detailed information on the valuation techniques and inputs used to prepare these valuations.

It should be noted that, with regard to the types of commodities whose fair value is determined: for single commodity derivatives (PUN standard base load products, Peak/Off Peak) the level of fair value is 1 as they are quoted on markets active, for complex indices (ITRemix, PUN profiled products, etc.) the level of fair value is 2 as these derivatives are the result of formulas containing a mix of commodities listed on active markets.

Finally, it should be noted that, as of 2014, the Group has applied the rules laid down in EC regulations 148 and 149/2013 (jointly and together with Regulation 648/2012, EMIR) and is currently defined as NFC (Non-Financial Counterparty).

Liquidity risk

Acea's liquidity risk management policy is based on ensuring the availability of significant bank lines of credit. Such lines exceed the average requirement necessary to fund planned expenditure and enable the Group to minimise the risk of extraordinary outflows. In order to minimise liquidity risk, the Group has adopted a centralised treasury management system, which includes the most important Group companies, and provides financial assistance to the companies (subsidiaries and associates) not covered by a centralised finance contract.

At 31 December 2019 the Parent Company has uncommitted credit lines of € 628 million. No guarantees were granted in obtaining these lines. In the event of the drawdown of these types of facilities, Acea would pay an interest rate equal to the Euribor at one, two, three or six months (depending on the chosen period of use), in

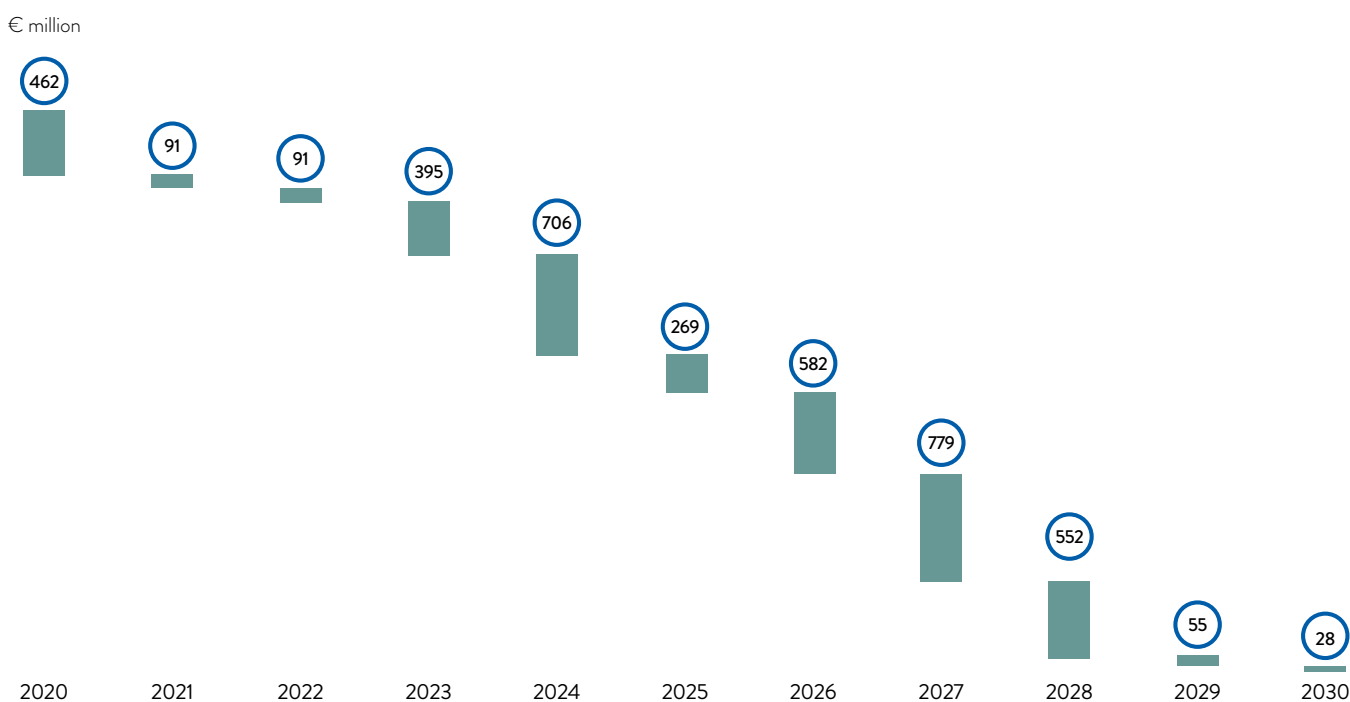
addition to a spread that, in some cases, may vary according to the rating assigned to the parent company.

At the end of the year the Parent Company has commitments in short-term deposit transactions for an amount of € 125 million.

Please note that the EMTN Programme approved in 2014 for an amount of € 1.5 billion and adjusted during 2018 to a total amount

of € 3 billion, was further adjusted during 2019 to a total amount of € 4 billion. Following the bond issue of € 500 million in May 2019, Acea can place additional bond issues up to the total residual amount of € 1.4 billion.

The graph below depicts the future development of all debt maturities, forecast based on the situation at the end of the year.



Regarding the trade payables (€ 1,472.8 million) it should be noted that the portion which is due to expire in the next twelve months amounted to € 1,273.9 million. The amount already expired of € 198.9 million will be paid by the first quarter of 2020.

Interest rate risk

The Acea Group's approach to managing interest rate risk, which takes the structure of assets and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging funding costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

The Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.

In particular, for static management (to be opposed to the dynamic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term.

Acea has, up to now, opted to minimise interest rate risk by choosing a mixed range of fixed and floating rate funding instruments.

As it is known, fixed rate funding protects a borrower from cash flow risk in that it stabilises the financial outflows in the income statement, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.

An analysis of the consolidated debt position shows that the risk Acea is exposed to is mainly in the form of fair value risk, being composed of hedged fixed rate borrowings (80.7%) as at 31 December 2019, and to a lesser extent to the risk of fluctuations in future cash flows.

Acea is consistent with its decisions regarding interest rate risk management that essentially aims to both control and manage this

risk and optimise borrowing costs, taking account of Stakeholders' interests and the nature of the Group's activities, and based on the prudence principle and best market practices. The main objectives of these guidelines are as follows:

- identifying, from time to time, the optimal combination of fixed and variable rates;
- to pursue a potential optimisation of borrowing costs within the risk limits established by governance bodies and in accordance with the specific nature of the business;
- to manage derivatives transactions solely for hedging purposes, should Acea decide to use them, in respect of the decisions of the Board of Directors and, therefore, the approved strategies and taking into account (in advance) the impact on the income statement and Statement of Financial Position of said transactions, giving preference to instruments that qualify for hedge accounting (typically cash flow hedges and, under given conditions, fair value hedges).

The Group currently uses interest rate risk hedging derivatives for Acea, which swapped at a fixed rate the loan signed on 27 December 2007 for € 100 million. The plain vanilla IRS, was entered into on 24 April 2008, effective as of 31 March 2008 (date of draw-down of the underlying loan) and expires on 21 December 2021 and completed a cross currency swap plain vanilla transaction to transform the Private Placement (Yen) currency and the yen rate applied in a fixed rate in Euros.

All the derivative instruments taken out by Acea and listed above are non-speculative and the fair values, calculated according to the bilateral method, of the same are respectively:

- negative for € 1.0 million (negative for € 2.1 million at 31 December 2018);
- negative for € 19.9 million (negative for € 21.8 million at 31 December 2018).

The fair value of medium/long-term debt is calculated on the basis of the risk-free and the risk-adjusted interest rate curves.

Bank Loans € thousand	Amortised cost (A)	FV RISK LESS (B)	Delta (A)-(B)	FV RISK ADJUSTED (C)	Delta (A)-(C)
Bonds	3,207,687	3,504,722	(297,035)	3,301,189	(93,502)
fixed rate	227,212	280,938	(53,726)	268,384	(41,171)
floating rate	583,053	628,431	(45,378)	625,153	(42,100)
floating rate to fixed rate	17,682	17,840	(158)	17,687	(5)
Total	4,035,635	4,431,931	(396,296)	4,212,413	(176,778)

This analysis was also carried out with the risk adjusted curve, i.e. a curve adjusted for the level of risk and the business sector of Acea. A curve populated with fixed rate bonds denominated in EUR, issued by domestic companies in the public utilities sector with a composite rating ranging from BBB+ and BBB- was used. A sensitivity analysis has been carried out on medium/long-term financial liabilities using stress testing, thus applying a constant

spread over the term structure of the risk-free interest rate curve. This makes it possible to evaluate the impact on fair value and on future Cash Flows for both the individual instruments in the portfolio and the overall portfolio.

The following table shows the overall fair value changes of the debt portfolio based on parallel shifts (positive and negative) between -1.5% and +1.5%.

Constant spread applied

Constant spread applied	Changes in Present Value (€ million)
(1.50%)	(293.6)
(1.00%)	(187.8)
(0.50%)	(85.9)
(0.25%)	(36.4)
0.00%	0.0
0.25%	59.8
0.50%	106.6
1.00%	197.5
1.50%	285.2

With regard to the type of hedging of which the fair value is determined and with reference to the hierarchies required by the IASB, it should be noted that, since these are composite instruments, the level is type 2 and that during the period there were no reclassifications from or to other levels of fair value as defined by IFRS 13.

Credit risks

In July 2019, Acea issued new guidelines for the Group's Credit Policy to make them consistent with the organisational changes made at the end of 2018. These general guidelines, inspired by the principle of decentralisation of credit activities within companies, identify the responsibilities of the Parent Company and those of the operating companies based on a governance matrix.

Also in July, the "Customer Scoring and Credit Check" procedure was issued, which defines the procedures for the prevention of credit risk (hereinafter referred to as "Credit Check") for non-regulated markets.

Within Acea's Administration, Finance and Control Function, the Corporate Credit Unit:

1. defines the strategic guidelines for the management of the group's trade credit and monitors the related performance indicators, compliance with the application of the Credit Policy and the procedures issued as a result of the Credit Policy;
2. defines the strategic direction of the Credit Check process integrated in the CRM system for Mass Market and Small Business customers and constantly monitors their performance;
3. punctually assesses the Large/Top Business customers;
4. manages the judicial recovery of ceased "Large ticket" and strategic receivables;
5. manages extraordinary transactions on performing and non-performing receivables.

Based on the above guidelines, the companies are responsible for the operational management of active and discontinued loans of the en-

tire receivable portfolio, with the exception of customers managed by Credito Corporate and for positions taken by tax injunction or law firms directly by the Legal and Corporate Affairs Department.

The Corporate Credit Unit monitors the performance of receivables on an ongoing basis and provides periodic management reports (monthly) by segment and by company.

With the May 2019 operational kick-off, project work was launched on Credit Risk Profiling for the three-year period 2019-2021, the macro objectives being the optimisation of the acquisition process, models and tools for managing Large Business customers, the activation of information platforms to support sales and the development of an advanced monitoring dashboard.

The assessment of Large Business customers continues to be managed through an approval workflow with decision-making bodies consistent with the level of exposure expected from the supply.

The dynamic management of recovery strategies is carried out in the billing system for active customers and through a dedicated management system for those discontinued. There is also a full review of the credit management process both in terms of the application map and the standardisation of activities for all Group companies, with the definition of a new Collection Strategy, fully integrated into the systems.

From the organisational point of view, in 2016 a further strengthening of the centralised management was achieved through the establishment of a new unit within the Parent Company, responsible for credit policies and the recovery of receivables from customers discontinued or with significant exposures. The structures of each single company responsible for managing credit reported functionally to the Acea Unit that guarantees end-to-end supervision of the entire process.

At the end of 2018, once the extraordinary design review and recovery processes had been completed, the mass management of receivables that had ceased – of a limited amount – was trans-

ferred to the operating companies, leaving to the holding company the activity of disposing of non-performing receivables through disposal operations, as well as the management of customers that had ceased to exist for a significant amount of time.

During 2019, the Group significantly improved its collections capacity both in terms of electricity sales and the water supply business, significantly reducing the respective unpaid amounts compared to current turnover.

As in previous years, this year the Group has set up non-recourse, revolving and spot transactions, of receivables from private customers and public administrations. These transactions led to the de-recognition of all the sold assets from the financial statements as all the associated risks and benefits had been transferred.

The Corporate Credit Unit monitors the performance of receivables on an ongoing basis and provides periodic management reports (monthly) by segment and by company.

The following table shows the credit risk management of the main business areas of the group by number of customers/turnover.

As for the distribution of electricity activities, credit risk is associated with relations with wholesalers: billing to them relates to the transport of energy in the distribution network and the services rendered to the end customers. The services are strictly regulated by ARERA resolutions.

The key principles on which the credit risk management strategies are based are as follows:

- homogeneous management of sellers' receivables, deemed of equal risk;
- uniformity of standard criteria for the application of default interest;
- credit risk mitigation through guarantees provided by the sellers; on this aspect of the new network code, Resolution 268/2015 and annexes A, B and C, allows sellers to submit a public rating, in place of the guarantee, provided it exceeds certain thresholds and is issued by certified bodies;
- adequate monitoring through credit ageing reports;
- management and assessment of instalment proposals made by sellers;
- training of dedicated staff.

Credit management starts with a "behavioural score", i.e. based on the knowledge of the individual seller through constant analysis of payment attitudes/habits which is then articulated through a series of targeted actions ranging from phone collection carried out internally, reminders and warnings through communications sent by certified mail, enforcement of the surety or forfeiture of the security deposit, up to the termination of the transport contract, as envisaged by resolution 268/2015/R/EEL.

As regards the supply of electricity and gas on the deregulated market, preventive credit risk assessment is performed using the credit scoring system (business decisions), with automatic results for mass market and small business customers and with a timely analysis with reference to sales of gas and electricity made to industrial and business customers. The integration is currently under way between the BD system and the SAS platform and with the Siebel system.

With regard to the water sector, the implementation of credit risk management strategies starts with a macro-distinction between public sector end users (Municipalities, public administrations, etc.) and private sector end users (industrial, commercial, condominium, etc.), given that said categories present different levels of risk, in particular:

- low risk of insolvency and high risk of late payment for public sector end users;
- variable risk of insolvency and late payment risk for private sector end users.

As regards credits due from public sector end users, which account for over 25% of the past due trade receivables, they are converted to cash through without-recourse factoring to financial partners, while a residual portion is managed directly through the offsetting of receivables/payables or by means of settlement agreements, where applicable.

Credit management for private sector end users, which represent approximately 75% of past due receivables, starts with behavioural scores or "knowledge in terms of the probability of default of each individual customer through the constant analysis of payment attitudes/habits", and is subsequently implemented through a series of targeted actions ranging from reminder letters, assignment to specialised companies for credit recovery via phone collection, to disconnection of defaulting end users and receivable factoring transactions. Finally, by decree of the Minister of Economy and Finance of 16 September 2015, published in the Official Gazette of 30 September 2015, no. 227, Acea Ato 2 was authorised to make collections through enforcement procedures (through Equitalia) and to preliminarily rely on tax injunctions, which replace the injunction orders pursuant to art. 17, paragraphs 3-bis and 3-ter of Legislative Decree no. 46/1999. On one hand, the public relevance of receivables arising from the integrated water service was acknowledged; on the other hand this will enable the company to be even more effective in the recovery of payments from delinquent customers, as it is now able to rely on a tool typically used for the collection of taxes. Thereafter, Acea Ato 5 and Gori were also authorised to collect by means of roll, respectively by Decree no. 58 of the Minister for Economy and Finance of 22 February 2016, published in Official Journal of 10 March 2016 and Decree of 22 September 2016, published in Official Journal no. 235 of 7 October 2016.

In Acea Energia, the first step in credit management is the prior assessment of the client. Corporate Credit has the task, amongst others, of implementing and managing the preventive scoring system, which enables real time assessment of the credit rating of the potential customer, when acquiring it.

- With regard to Mass Market and Small Business customers, the Credit Check system integrated in the CRM is directly usable by Acea Energia and the commercial agencies appointed thereby. Specific scorecards have been defined to statistically identify customers that are potentially unsuitable for the supply of electricity or gas, as they have a risk profile that is not in line with company standards;
- with reference to Large and Top customers, the investigation is performed in Acea SpA using a dedicated platform with specific workflows that support the timely analysis of prospective customers, thanks also to the availability of updated accounting and commercial information.

Acea Energia uses the "Collection Strategy" SAP module to manage credit relating to utilities operative on the protected market and "Credit Care" for the management of credit of customers operating on the deregulated market and ceased customers. In recent years, in-court and out-of-court recovery was strengthened, with specific reference to legal litigation activities and using the services offered by market operators for the bulk recovery of receivables.

On the management side, activities successfully continued for the collection matching process, acting both on the collection channels and the application systems, and with regard to the number of dedicated employees.

The "large-ticket" customers that have ceased to be "large-ticket" customers following an internal collection process set up by Acea Energia are transferred to the Acea SpA Corporate Credit Unit in the event of an unsuccessful outcome of the recovery, which then entrusts them in packages with uniform characteristics to law firms contracted by the Legal and Corporate Affairs Department.

Law firms are assessed on the basis of their recovery performance and are engaged in proportion to the results achieved.

The ageing of the Trade Receivables is as follows, gross of the allowance for doubtful accounts, detailed in Note 23.

- Total trade receivables, gross of Provision for Impairment of Receivables: € 2,064 million;
- Trade receivables expiring: € 848 million;
- Outstanding trade receivables: € 1,216 million.



ANNEXES

A. LIST OF CONSOLIDATED COMPANIES

B. RECONCILIATION OF SHAREHOLDERS' EQUITY AND STATUTORY PROFIT – CONSOLIDATED

C. REMUNERATION OF DIRECTORS, STATUTORY AUDITORS AND KEY MANAGERS

D. PUBLIC DISBURSEMENT INFORMATION PURSUANT TO ART. 1, PARAGRAPH 125, LAW 124/2017

E. SEGMENT INFORMATION: STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

A. LIST OF CONSOLIDATED COMPANIES

Company name	Location	Share Capital (in €)	Shareholding	Group consolidation quota	Method of Consolidation
Environment Segment					
Acea Ambiente Srl	Via G. Bruno 7 - Terni	2,224,992	100.00%	100.00%	100%
Aquaser Srl	P.le Ostiense. 2 - Rome	3,900,000	93.06%	100.00%	100%
Bioecologia Srl	Via Simone Martini. 57 - 53100 Siena	2,382,428	100.00%	100.00%	100%
Iseco SpA	Loc. Surpian n. 10 - 11020 Saint-Marcel (AO)	110,000	80.00%	100.00%	100%
Berg	Via delle Industrie. 38 - Frosinone (FR)	844,000	60.00%	100.00%	100%
Demap Srl	Via Giotto. 13 - Beinasco (TO)	119,015	90.00%	100.00%	100%
Acque Industriali Srl	Via Bellatalla.1 - Ospedaletto (Pisa)	100,000	73.05%	100.00%	100%
Commercial and Trading Segment					
Acea Energia SpA	Piazzale Ostiense 2 - Rome	10,000,000	100.00%	100.00%	100%
Acea8cento Srl	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%
Cesap Vendita Gas Srl	Via del Teatro 9 - Bastia Umbra (PG)	10,000	100.00%	100.00%	100%
Umbria Energy SpA	Via B. Capponi 100 - Terni	1,000,000	50.00%	100.00%	100%
Acea Energy Management Srl	Piazzale Ostiense 2 - Rome	50,000	100.00%	100.00%	100%
Parco della Mistica Srl	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%
Overseas					
Acea Dominicana SA	Avenida Las Americas - Esquina Mazoneria. Ensanche Ozama - Santo Domingo	644,937	100.00%	100.00%	100%
Aguas de San Pedro S.A.	Las Palmas. 3 Avenida. 20y 27 calle - 21104 San Pedro. Honduras	6,457,345	60.65%	100.00%	100%
Acea International S.A.	Avenida Las Americas - Esquina Mazoneria. Ensanche Ozama - 11501 Santo Domingo	8,850,604	99.99%	100.00%	100%
Acea Perù S.A.C.	Cal. Amador Merino Reyna 307 MI-RAFLORES - LIMA	1,000	100.00%	100.00%	100%
Consortio Acea-Acea Dominicana	Av. Las Americas - Esq. Masoneria - Ens. Ozama	67,253	100.00%	100.00%	100%
Consortio Servicios Sur	Calle Amador Merino Reyna - San Isidro	233,566	51.00%	100.00%	100%
Water Segment					
Acea Ato 2 SpA	Piazzale Ostiense 2 - Rome	362,834,320	96.46%	100.00%	100%
Acea Ato 5 SpA	Viale Roma snc - Frosinone	10,330,000	98.45%	100.00%	100%
Acque Blu Arno Basso SpA	Piazzale Ostiense 2 - Rome	8,000,000	76.67%	100.00%	100%
Acque Blu Fiorentine SpA	Piazzale Ostiense 2 - Rome	15,153,400	75.01%	100.00%	100%
Crea Gestioni Srl	Piazzale Ostiense 2 - Rome	100,000	100.00%	100.00%	100%
Crea SpA (in liquidation)	Piazzale Ostiense 2 - Rome	2,678,958	100.00%	100.00%	100%
AdF SpA	Via Mameli 10 - Grosseto	1,730,520	40.00%	40.00%	100%
Gesesa SpA	Corso Garibaldi 8 - Benevento	534,991	57.93%	100.00%	100%
Gori SpA	Via Trentola 211 - Ercolano (NA)	44,999,971	37.05%	100.00%	100%
Lunigiana SpA (in liquidation)	Via Nazionale 173/175 - Massa Carrara	750,000	95.79%	100.00%	100%
Ombrone SpA	Piazzale Ostiense 2 - Rome	6,500,000	99.51%	100.00%	100%
Pescara Distribuzione Gas Srl	Via G. Carducci 83 Pescara	120,000	51.00%	100.00%	100%
Sarnese Vesuviano Srl	Piazzale Ostiense 2 - Rome	100,000	99.16%	100.00%	100%
Umbriadue Servizi Idrici S.c.a.r.l.	Strada Sabbione zona ind. A72 - Terni	100,000	99.20%	100.00%	100%
Energy Infrastructure Segment					
areti SpA	Piazzale Ostiense 2 - Rome	345,000,000	100.00%	100.00%	100%

(follows)

Company name	Location	Share Capital (in €)	Shareholding	Group consolidation quota	Method of Consolidation
Acea Produzione SpA	Piazzale Ostiense 2 - Rome	5,000,000	100.00%	100.00%	100%
Acea Liquidation and Litigation Srl	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%
Ecogena Srl	Piazzale Ostiense 2 - Rome	1,669,457	100.00%	100.00%	100%
KT 4 Srl	Viale SS Pietro e Paolo 50 - Rome	110,000	100.00%	100.00%	100%
Brindisi Solar Srl	Via Paolo da Cannobio 33 - Milan	10,000	65.00%	100.00%	100%
Solaria Real Estate srl	Via Paolo da Cannobio 33 - Milan	160,000	65.00%	100.00%	100%
Compagnia Solare 2	Via Paolo da Cannobio 33 - Milan	10,000	65.00%	100.00%	100%
Compagnia Solare 3	Via Paolo da Cannobio 33 - Milan	10,000	65.00%	100.00%	100%
SPES Srl	Via Paolo da Cannobio 33 - Milan	457,426	65.00%	100.00%	100%
Acquaviva Srl	Via Paolo da Cannobio 33 - Milan	10,000	65.00%	100.00%	100%
Luna Energia Srl	Strada degli Alberi 7 - Galliera Veneta (PD)	10,000	100.00%	100.00%	100%
Sisine Energia Srl	Strada degli Alberi 7 - Galliera Veneta (PD)	10,000	100.00%	100.00%	100%
Acea Solar Srl	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%
Acea Sun Capital Srl	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%
Trinovolt	Viale Tommaso Columbo 31/D - Bari (BA)	10,000	100.00%	100.00%	100%
Marche Solar Srl	Via Achille Grandi 39 - Concordia sulla Sec- chia (MO)	10,000	100.00%	100.00%	100%
Urbe Cerig Srl	Via Cardinale Agostino Ciasca 9 - Bari	10,000	100.00%	100.00%	100%
Urbe Solar Srl	Via Cardinale Agostino Ciasca 9 - Bari	10,000	100.00%	100.00%	100%
Engineering and Services Segment					
Acea Elabori SpA	Via Vitorchiano - Rome	2,444,000	100.00%	100.00%	100%
Technologies For Water Services SpA	Via Ticino. 9 -25015 Desenzano Del Garda (BS)	11,164,000	100.00%	100.00%	100%
Corporate					
Acea Innovation	Piazzale Ostiense 2 - Rome	10,000	100.00%	100.00%	100%

COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD AS FROM 1 JANUARY 2014 IN ACCORDANCE WITH IFRS 11

Company name	Location	Share Capital (in €)	Shareholding	Group consolidation quota	Method of Consolidation
Environment Segment					
Ecomed Srl	Piazzale Ostiense 2 - Rome	10,000	50.00%	50.00%	Shareholders' Equity
Overseas					
Consorcio Agua Azul S.A.	Calle Amador Merino Reina 307 - Lima - Perù	17,371,834	25.50%	25.50%	Shareholders' Equity
Water Segment					
Acque SpA	Via Garigliano 1- Empoli	9,953,116	45.00%	45.00%	Shareholders' Equity
Acque Servizi Srl	Via Bellatalla 1 - Ospedaletto (Pisa)	400,000	100.00%	45.00%	Shareholders' Equity
Geal SpA	Viale Luporini 1348 - Lucca	1,450,000	48.00%	48.00%	Shareholders' Equity
Intesa Aretina S.c.a.r.l.	Via B.Crespi 57 - Milan	18,112,000	35.00%	35.00%	Shareholders' Equity
Nuove Acque SpA	Patrignone Loc. Cuculo - Arezzo	34,450,389	46.16%	16.16%	Shareholders' Equity
Publiacqua SpA	Via Villamagna - Florence	150,280,057	40.00%	40.00%	Shareholders' Equity
Umbra Acque SpA	Via G. Benucci 162 - Ponte San Giovanni (PG)	15,549,889	40.00%	40.00%	Shareholders' Equity
Engineering and Services Segment					
Ingegnerie Toscane Srl	Via Francesco de Sanctis 49 - Florence	100,000	42.52%	42.52%	Shareholders' Equity
Visano S.c.a.r.l.	Via Lamarmora 230 -25124 Brescia	25,000	40.00%	40.00%	Shareholders' Equity

The following companies are also consolidated using the equity method:

Company name	Location	Share Capital (in €)	Shareholding	Group consolidation quota	Method of Consolidation
Environment Segment					
Amea SpA	Via San Francesco d'Assisi 15C - Paliano (FR)	1,689,000	33.00%	33.00%	Shareholders' Equity
Coema	Piazzale Ostiense 2 - Rome	10,000	33.50%	33.50%	Shareholders' Equity
Overseas					
Aguaazul Bogotá S.A.	Calle 82 19°-34 - Bogotá- Colombia	1,162,872	51.00%	51.00%	Shareholders' Equity
Water Segment					
Azga Nord SpA (in liquidation)	Piazza Repubblica Palazzo Comunale - Pontremoli (MS)	217,500	49.00%	49.00%	Shareholders' Equity
Sogea SpA	Via Mercatanti 8 - Rieti	260,000	49.00%	49.00%	Shareholders' Equity
Le Soluzioni Scarl	Via Garigliano 1 - Empoli	250,678	34.32%	24.62%	Shareholders' Equity
Umbria Distribuzione Gas SpA	Via Bruno Capponi 100 - Terni	2,120,000	15.00%	15.00%	Shareholders' Equity
Servizi idrici Integrati ScPA	Via I Maggio 65 - Terni	19,536,000	25.00%	24.80%	Shareholders' Equity
Energy Infrastructure Segment					
Citelum Napoli Pubblica Illuminazione S.c.a.r.l.	Via Monteverdi Claudio 11 - Milan	90,000	32.18%	32.18%	Shareholders' Equity
Sienergia SpA (in liquidation)	Via Fratelli Cairoli 24 - Perugia	132,000	42.08%	42.08%	Shareholders' Equity
Other					
Marco Polo Srl (in liquidation)	Via delle Cave Ardeatine 40 - Rome	10,000	33.00%	33.00%	Shareholders' Equity

B. RECONCILIATION OF SHAREHOLDERS' EQUITY AND STATUTORY PROFIT – CONSOLIDATED

€ thousand	Profit for the year		Shareholders' equity	
	2019	2018	31/12/2019	31/12/2018
Balances in statutory financial statements (Acea)	208,488	147,776	1,628,812	1,574,048
Surplus of shareholders' equity in financial statements, including the related results, compared to book values in consolidated companies	57,460	94,573	(98,846)	(143,759)
Consolidation Goodwill	(4,726)	(4,789)	203,348	170,666
Accounted for using the equity method	36,227	44,448	145,519	137,125
Other changes	(13,764)	(11,008)	(24,061)	(8,440)
Balances in consolidated financial statements	283,686	270,999	1,854,772	1,729,638

C. REMUNERATION OF DIRECTORS, STATUTORY AUDITORS AND KEY MANAGERS

Board of Directors and Board of Statutory Auditors

€ thousand	Remuneration due				Total
	Remuneration for the office	Non-monetary benefits	Bonuses and other incentives	Other compensation	
Board of Directors	232	87	280	689	1,288
Board of Statutory Auditors	364	0	0	0	364

Key Managers

Fees due to executives with strategic responsibilities for 2019 amounted to:

- salaries and bonuses € 1,907 thousand,
- non-monetary benefits € 193 thousand.

Remuneration paid to key managers is established by the Remuneration Committee based on average levels of pay in the labour market.

Auditing Firm

In accordance with article 149 duodecies of CONSOB Issuers' Regulations, the fees accrued by the independent auditors PWC in 2019 are provided in the table below.

€ thousand	Audit Related Service	Audit Services	Non Audit Services	Total
Acea SpA	435	215	443	1,093
Acea Group	153	803	37	993
Total Acea SpA and Group	588	1,018	480	2,086

The services other than auditing provided to the Parent Company or its subsidiaries during 2019 are highlighted, mainly concerning assistance in carrying out the 262/05 tests identified by the Acea Group.

D. PUBLIC DISBURSEMENT INFORMATION PURSUANT TO ART. 1, PARAGRAPH 125, LAW 124/2017

Based on recent developments regarding transparency in the public payment system pursuant to art. 1, paragraph 125 of Italian law 124/2017, we declare that during 2019 no contributions have been received that fall within the legislation of reference. In particular, it is specified that the 2019 collections deriving from green certificates, white certificates and energy accounts are not specified since they constitute a payment for supplies and services rendered.

It should be noted that the company areti has two loans granted by Cassa Depositi e Prestiti SpA and UBI Banca SpA pursuant to Italian Law no. 311, art. 1, paragraphs 354 to 361 of 30 December 2004 and subsequent amendments and additions and of Italian Law no. 46 of 17 February 1982, granted for the implementation of an investment programme permitted by the Ministry of Economic Development for the allowances envisaged by the aforementioned laws (Smart Network Management System Project).

The loan is made up of a subsidised amount paid by Cassa Depositi

to e Prestiti and UBI Banca at a fixed rate of 0.5% and a non-subsidised bank loan provided by UBI Banca at a variable rate equal to the Euribor six-month rate plus a spread of 4%, both to be repaid according to an amortisation plan that will end in 2022.

The debt relating to the subsidised loan as at 31 December 2019 is equal to € 5,101 thousand (€ 6,784 thousand at 31 December 2018) while the non-subsidised bank loan at 31 December 2019 is equal to € 940 thousand (€ 940 thousand also at 31 December 2018) as no repayment of the principal amount is envisaged in the first few years.

Finally, it should be noted that in 2019 the company Acea Ambiente received the disbursement of another contribution from the Tuscany Region relating to the Territorial Development Pact of the Maremma Grossetana for a total amount of € 274 thousand.

Finally, it is useful to recall that the rules contained in article 1, paragraphs 125-129 of Italian law no. 124/2017 still present many critical issues that lead to believe that further regulatory action is desirable. Therefore the above represents the best interpretation of the law.

E. SEGMENT INFORMATION: STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

Please note the following for a better understanding of the breakdown provided in this section:

- sales refer to the Commercial and Trading Segment which, from an organisational standpoint, is responsible for Acea Energia, Acea8cento, AEMA, Umbria Energy, Parco della Mistica and Cesap Vendita Gas;
- distribution and Public Lighting refer to the Networks segment which, from an organisational standpoint, is responsible for Acea Produzione, Ecogena, Acea Liquidation and Liquidation, areti, Acea Sun Capital, Acea Solar and the new photovoltaic companies acquired in 2019;

- analysis and research services refer to the Engineering and Services Segment, which, from an organisational standpoint, is responsible for Acea Elabori and TWS;
- Overseas refers to the Industrial Segment of the same name which, from an organisational standpoint, is responsible for operations overseas;
- Water refers to the Industrial Segment of the same name, which, from an organisational standpoint, is responsible for the water companies operating in Lazio, Campania, Tuscany and Umbria;
- Environment refers to the Industrial Segment of the same name which, from an organizational standpoint, is responsible for Acea Ambiente, Aquaser, Acque Industriali, Iseco, Bioecologia, Demap and Berg.

BALANCE SHEET ASSETS 2018

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Investments	19,987	24,639	6,588	342,120	15,503	218,413
Tangible Fixed Assets	233,026	(3,267)	34,533	52,193	209,623	1,735,371
Intangible Fixed Assets	14,780	152,986	11,191	2,560,968	290	84,076
Non-current financial assets measured at equity	-	-	-	-	-	-
Financial assets	-	-	-	-	-	-
Other non-current trade assets	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-
Inventories	5,608	401	945	9,217	440	29,853
Trade receivables from third parties	95,554	238,263	8,238	458,875	20,149	157,280
Trade receivables from Parent Company	124	11,709	-	42,881	4,519	(12,079)
Receivables from subsidiaries and associates	4	1,544	26	4,016	-	-
Other current trade assets	-	-	-	-	-	-
Other current financial assets	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	183	-
Total Assets						

BALANCE SHEET LIABILITIES 2018

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Segment liabilities						
Trade payables to third parties	47,930	392,419	2,950	647,353	17,329	336,159
Trade payables to Parent Company	2,011	26,188	892	136,005	1,597	26,329
Trade payables to subsidiaries and associates	-	3,968	-	59	-	-
Other current trade liabilities	-	-	-	-	-	-
Other current financial liabilities	-	-	-	-	-	-
Employee severance indemnity and other defined benefit plans	6,837	4,744	340	29,970	2,247	33,032
Other provisions	19,266	19,308	1	38,966	19,025	20,312
Provision for deferred taxes						
Other non-current trade liabilities						
Other non-current financial liabilities						
Liabilities directly associated with assets held for sale	-	-	-	-	37	-
Shareholders' Equity						
Total liabilities and shareholders' equity						

€ thousand	Public Lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated total
Investments	4,419	1,573	10,030	643,272	(12,442)	630,831
Tangible Fixed Assets	5,116	3,394	97,978	2,367,969	(461)	2,367,508
Intangible Fixed Assets	(895)	(2)	11,887	2,835,281	(412,045)	2,423,236
Non-current financial assets measured at equity	-	-	-	-	-	279,085
Financial assets	-	-	-	-	-	2,614
Other non-current trade assets	-	-	-	-	-	607,240
Other non-current financial assets	-	-	-	-	-	55,831
Inventories	-	2,325	(0)	48,789	-	48,789
Trade receivables from third parties	782	25,642	534	1,037,715	(142,116)	863,200
Trade receivables from Parent Company	15,187	60	28	67,893	(9,917)	52,513
Receivables from subsidiaries and associates	420	6,971	87,729	100,711	(88,589)	12,122
Other current trade assets	-	-	-	-	-	262,643
Other current financial assets	-	-	-	-	-	113,960
Cash and cash equivalents	-	-	-	-	-	1,068,138
Non-current assets held for sale	-	-	-	183	-	183
Total Assets						8,157,061

€ thousand	Public Lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated total
Segment liabilities						
Trade payables to third parties	4,610	12,259	95,322	1,556,331	(142,403)	1,413,928
Trade payables to Parent Company	637	461	2	194,123	(86,480)	107,644
Trade payables to subsidiaries and associates	3,031	120	6,770	13,949	(10,644)	3,305
Other current trade liabilities	-	-	-	-	-	357,119
Other current financial liabilities	-	-	-	-	-	408,675
Employee severance indemnity and other defined benefit plans	-	3,246	23,512	103,930	-	103,930
Other provisions	12	2,513	(6,570)	118,298	23,818	136,651
Provision for deferred taxes	-	-	-	-	-	-
Other non-current trade liabilities	-	-	-	-	-	348,148
Other non-current financial liabilities	-	-	-	-	-	3,374,134
Liabilities directly associated with assets held for sale	-	-	-	37	-	37
Shareholders' Equity						1,903,491
Total liabilities and shareholders' equity						8,157,061

INCOME STATEMENT 2018

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Revenues	173,910	1,693,218	37,460	801,100	81,241	559,267
Personnel costs	19,601	24,338	8,943	71,431	5,050	32,380
Purchase of electricity	3,539	1,465,572	-	28,166	9,715	132,941
Sundry costs of materials and overheads	85,180	127,186	14,832	308,438	17,498	76,833
Costs	108,319	1,617,096	23,775	408,035	32,263	242,153
Income/(Costs) from equity investments of a non-financial nature	(6)	-	1,120	39,888	-	-
EBITDA	65,585	76,122	14,805	432,953	48,978	317,113
Depreciation/amortisation	27,155	72,456	6,956	211,994	24,279	129,088
Operating profit/loss	38,429	3,666	7,849	220,960	24,699	188,025
Financial (costs)/income						
(Costs)/Income from Equity Investments			526	4,170		
Profit/(loss) before tax						
Taxes						
Net profit/(loss)						

€ thousand	Public Lighting	Engineering and services	Corporate	Group total	Consolidation adjustments	Group total
Revenues	48,481	74,151	129,486	3,598,314	(569,827)	3,028,487
Personnel costs	5,768	28,808	57,196	253,514	(33,891)	219,624
Purchase of electricity	6,046	86	1,093	1,647,158	(247,378)	1,399,780
Sundry costs of materials and overheads	42,056	27,158	106,139	805,320	(286,164)	519,156
Costs	53,870	56,052	164,429	2,705,992	(567,432)	2,138,560
Income/(Costs) from equity investments of a non-financial nature	-	2,318	-	43,320	-	43,320
EBITDA	(5,389)	20,418	(34,943)	935,642	(2,395)	933,247
Depreciation/amortisation	8,528	2,544	(31,512)	451,487	3,200	454,687
Operating profit/loss	(13,917)	17,874	(3,431)	484,155	(5,595)	478,560
Financial (costs)/income						(82,859)
(Costs)/Income from Equity Investments		8,902	(266)	13,332		13,332
Profit/(loss) before tax						409,033
Taxes						124,334
Net profit/(loss)						284,699

BALANCE SHEET ASSETS 2019

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Investments	51,893	42,529	7,020	401,292	18,832	265,662
Tangible Fixed Assets	252,451	(3,440)	36,989	96,814	261,420	1,859,850
Intangible Fixed Assets	41,725	174,120	11,138	2,982,550	28,607	104,093
Non-current financial assets measured at equity	-	-	-	-	-	-
Financial assets	-	-	-	-	-	-
Other non-current trade assets	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-
Inventories	5,935	300	1,336	16,615	423	29,271
Trade receivables from third parties	97,133	214,014	6,263	531,447	27,455	175,529
Trade receivables from Parent Company	158	13,682	-	76,339	3,045	4,285
Receivables from subsidiaries and associates	4	1,371	27	7,199	4	-
Other current trade assets	-	-	-	-	-	-
Other current financial assets	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	-	-
Total Assets						

BALANCE SHEET LIABILITIES 2019

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Segment liabilities						
Trade payables to third parties	72,062	387,473	3,901	709,858	16,508	319,482
Trade payables to Parent Company	2,059	21,887	775	162,657	2,487	26,298
Trade payables to subsidiaries and associates	13	2,330	257	5,202	-	-
Other current trade liabilities	-	-	-	-	-	-
Other current financial liabilities	-	-	-	-	-	-
Employee severance indemnity and other defined benefit plans	7,955	4,886	317	31,285	2,008	32,015
Other provisions	21,220	16,287	5	50,336	20,427	22,975
Provision for deferred taxes						
Other non-current trade liabilities						
Other non-current financial liabilities						
Liabilities directly associated with assets held for sale	-	-	-	-	-	-
Shareholders' Equity						
Total liabilities and shareholders' equity						

€ thousand	Public Lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated total
Investments	3,274	1,787	21,699	813,989	(21,212)	792,776
Tangible Fixed Assets	6,999	3,856	97,436	2,612,376	(461)	2,611,915
Intangible Fixed Assets	(767)	1,257	40,675	3,383,397	(430,256)	2,953,141
Non-current financial assets measured at equity	-	-	-	-	-	268,039
Financial assets	-	-	-	-	-	2,772
Other non-current trade assets	-	-	-	-	-	618,359
Other non-current financial assets	-	-	-	-	-	47,202
Inventories	-	3,454	(0)	57,335	-	57,335
Trade receivables from third parties	1,122	42,435	582	1,095,980	(160,899)	935,082
Trade receivables from Parent Company	(0)	40	-	97,549	(10,805)	86,745
Receivables from subsidiaries and associates	111	7,219	97,246	113,181	(99,545)	13,636
Other current trade assets	-	-	-	-	-	225,285
Other current financial assets	-	-	-	-	-	299,212
Cash and cash equivalents	-	-	-	-	-	835,693
Non-current assets held for sale	-	-	-	-	-	-
Total Assets						8,954,416

€ thousand	Public Lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated total
Segment liabilities						
Trade payables to third parties	9,160	10,145	107,702	1,636,291	(163,489)	1,472,802
Trade payables to Parent Company	424	1,070	28	217,686	(96,025)	121,661
Trade payables to subsidiaries and associates	6,459	128	3,134	17,524	(11,724)	5,800
Other current trade liabilities	-	-	-	-	-	374,058
Other current financial liabilities	-	-	-	-	-	674,364
Employee severance indemnity and other defined benefit plans	-	2,824	23,323	104,613	-	104,613
Other provisions	-	2,506	(6,094)	127,662	23,757	151,418
Provision for deferred taxes	-	-	-	-	-	-
Other non-current trade liabilities	-	-	-	-	-	391,100
Other non-current financial liabilities	-	-	-	-	-	3,551,889
Liabilities directly associated with assets held for sale	-	-	-	-	-	-
Shareholders' Equity						2,106,710
Total liabilities and shareholders' equity						8,954,416

INCOME STATEMENT 2019

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Revenues	182,875	1,619,278	47,296	1,012,013	79,634	559,132
Personnel costs	22,171	25,178	9,796	98,288	4,683	25,703
Purchase of electricity	5,146	1,427,012	-	53,748	10,702	115,256
Sundry costs of materials and overheads	103,967	97,956	21,737	392,224	19,682	72,731
Costs	131,285	1,550,146	31,533	544,260	35,068	213,690
Income/(Costs) from equity investments of a non-financial nature	(2)	-	1,130	37,206	-	-
EBITDA	51,588	69,132	16,892	504,959	44,566	345,442
Depreciation/amortisation	30,878	50,810	9,219	252,765	21,686	130,303
Operating profit/loss	20,709	18,322	7,673	252,194	22,880	215,138
Financial (costs)/income						
(Costs)/Income from Equity Investments			2,552	(0)		40
Profit/(loss) before tax						
Taxes						
Net profit/(loss)						

€ thousand	Public Lighting	Engineering and Services	Corporate	Group total	Consolidation adjustments	Group total
Revenues	44,559	75,918	142,555	3,763,259	(574,375)	3,188,884
Personnel costs	2,320	38,931	60,096	287,168	(38,297)	248,871
Purchase of electricity	4,262	89	1,005	1,617,220	(246,654)	1,370,566
Sundry costs of materials and overheads	36,034	26,980	87,025	858,337	(289,820)	568,517
Costs	42,616	66,000	148,127	2,762,725	(574,770)	2,187,954
Income/(Costs) from equity investments of a non-financial nature	-	3,033	-	41,367	-	41,367
EBITDA	1,943	12,952	(5,571)	1,041,902	395	1,042,297
Depreciation/amortisation	2,241	2,443	23,844	524,190	-	524,190
Operating profit/loss	(298)	10,509	(29,415)	517,712	395	518,107
Financial (costs)/income						(90,302)
(Costs)/Income from Equity Investments		-	(7)	2,585		2,585
Profit/(loss) before tax						430,390
Taxes						123,213
Net profit/(loss)						307,177



**INDEPENDENT AUDITOR'S REPORT
IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE NO. 39
OF 27 JANUARY 2010 AND ARTICLE 10 OF REGULATION (EU) NO.
537/2014**

ACEA SPA

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019



Independent auditor's report

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

To the shareholders of Acea SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Acea Group, (the Group), which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position as of 31 December 2019, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

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 this report. We are independent of Acea SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Cimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Emphasis of matter

We draw your attention to paragraph “Trend of operating segments – Water operating segment” of the report on operations which describes:

- The uncertainties regarding the subsidiary Acea Ato5 SpA linked to the ongoing tax litigation and the complex in and out of court legal dispute with the Area Authority which is mainly related to the termination of the concession agreement, the approval of the 2016-2019 tariffs, the contractual penalties charged to the company for alleged non-fulfilments, the recognition of receivables related to higher operating costs incurred in the 2003-2005 period (as per the settlement agreement of 27 February 2007) and the determination of the concession fees;
- The complex regulatory measures, with particular reference to what lies behind the approval process of water tariffs.

We also draw attention to paragraphs “Information on Related Parties” and “Receivables from Parent Companies – Roma Capitale” in the notes to the financial statements, as well as to paragraph “Relations with Roma Capitale” included in section “Summary of Results” of the report on operations, where the directors describe the existing commercial relations with the Municipality of Rome and related net receivable balance at 31 December 2019.

Our opinion is not qualified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters

Auditing procedures performed in response to key audit matters

Determination of revenue from sales and services and receivables for invoices to be issued

Note 1 “Revenue from sales and services” and note 25.b “Trade receivables” to the consolidated financial statements

The Group recognised in the consolidated financial statements as of 31 December 2019 receivables from users for invoices to be issued for an amount equal to Euro 445 million compared to revenue from sales and services amounting to

The audit procedures we performed consisted in understanding, assessing and testing the operations of the key controls implemented by management as part of the revenue cycle, with particular, but not exclusive, reference to

Euro 3,022 million.

The Group recognises revenue from sales and services when control of the good is actually transferred or when a service is rendered and measures it at the fair value of the consideration received or receivable. In particular:

- i) Revenues from the sale and transport of electricity and gas are recognised at the time the service is supplied or provided, even if they are not invoiced, and are determined by adding estimates on the volumes supplied/transported to revenues that are calculated on the basis of pre-established meter reading calendars.
- ii) Revenues from distribution of electricity take into account the tariffs and the restriction on revenue established by the Italian Regulatory Authority for Energy, Networks and the Environment (“ARERA” formerly “AEEGSI”). Moreover, if the admission of investments in tariffs that establishes the operator’s right to payment is virtually certain, the corresponding revenues are recognised as determined by the ARERA resolution 654/2015 (the so-called regulatory lag).
- iii) Revenues from integrated water service are determined on the basis of the estimated consumption for the period and of the tariffs and of the operator's Guaranteed Revenue Constraint (GRC) provided for in the updated 2018-2019 tariffs prepared in accordance with the Water Pricing Method applied for the calculation of the 2016-2019 tariffs and approved by the competent authorities. Furthermore, the Group recognises under revenues for the year adjustments for the so-called pass-through items, as well as any adjustment related to costs pertaining to the Integrated Water Service incurred for the occurrence of

the update of the customer database , the recognition of meter readings, consumption estimates, the calculation of tariffs and the valuation of invoices and receipts.

Moreover, we performed the following specific substantive tests for each type of revenue.

- i) Revenues from the sale and transport of electricity and gas
 - We compared the electricity and gas quantities sold included in the billing system with the data communicated by the distributors and the quantities purchased, in order to establish the reasonableness of the estimated quantities sold still to be billed;
 - We verified the correct valuation of invoices to issue based on the estimated quantities sold but not yet invoiced and the tariffs in force in the period under analysis.
- ii) Revenues from electricity distribution
 - We compared the quantities distributed included in the billing system with the quantities supplied to the grid communicated by the dispatcher net of expected grid losses, in order to ascertain the reasonableness of the estimated quantities distributed not yet invoiced;
 - We tested the correct valuation of invoices to issue on the basis of the estimated distributed quantities still to be invoiced and of the tariffs in force in the period under analysis;
 - We verified the correct calculation of receivables/payables for the electricity equalisation to the extent of the difference between sales revenues invoiced/to be invoiced to customers and the regulatory revenues attributable to the year and established by the ARERA;
 - We verified the consistency of the methods followed to determine the accruals for the “regulatory lag”.

exceptional events (i.e. water and environmental emergencies), if the preliminary investigation for their recognition has given positive results.

The methods to determine allocations for invoices to be issued are based on the use of complex algorithms and include significant estimates. Therefore, we paid particular attention to the risk of wrong calculation of revenues from sales and services and of the related receivables from users for invoices to be issued.

iii) Revenues from the integrated water service

- We reconciled revenues from the integrated water service with the GRC adjusted to reflect the adjustments to the pass-through items and those related to the costs incurred in consequence of exceptional events occurred;
- We verified the correct determination of receivables for invoices to be issued for tariff adjustments to an extent equal to the difference between revenues for bills issued /to be issued and the adjusted GRC;
- We tested, on a sample basis, the correct valuation of bills issued/to be issued based on the consumption data and the tariffs in force.

Investments and disinvestments of non-current assets and impairment test

Note 14 “Tangible fixed assets”, note 16 “Goodwill”, note 17 “Concessions and rights on infrastructure”, note 18 “Intangible assets” and note 19 “Right of use” to the consolidated financial statements

The Group recognised in the consolidated financial statements as of 31 December 2019 non-current assets equal to Euro 5,565 million, of which Euro 2,609 million related to tangible assets, Euro 2,706 million related to intangible assets, Euro 182 million related to goodwill and Euro 63 million of right of use.

The Group investments in the period totalled Euro 826 million, of which Euro 319 million related to tangible assets and Euro 507 million related to intangible assets (including concessions).

In this respect, we highlight that for regulated activities (in particular the integrated water service and the electricity distribution), the tariffs and, accordingly, the Group’s revenues are directly influenced by the amount of the invested

We addressed our compliance procedures in order to comprehend, evaluate and validate the internal control system with reference to the corporate processes related to the management of non-current assets.

Our substantive tests were focused on the analysis of the changes in non-current assets during the financial year, verifying that they were reconciled with the fixed asset register, with a sample of investments and divestments during the year, especially in the integrated water service and in the electricity distribution segments.

With reference to the latter, we verified if the requirements for the capitalization of internal and external costs provided for by IAS 16 and IAS 38 had been complied with and also the existence of the services capitalized, that is if the service or assets being verified had been actually rendered or delivered/installed and correctly recognised.

capital and therefore by the changes in non-current assets. As a result, the overestimate or underestimate of the abovementioned non-current assets could increase or decrease the tariffs applied to final users under the performance of the integrated water service and the transport of electricity.

Annually, the Group, on the basis of its internal procedures, performs the impairment test pursuant to IAS 36 using the Discounted Cash Flow method to determine the recoverable amount of assets. The impairment test is based on a two-level approach. A first level concerns the estimate of the recoverable amount of intangible assets with an indefinite life (goodwill) and a second level relates to the estimate of the recoverable amount of equity investments in associates and the other non-current assets. In particular, goodwill is tested for impairment at least annually, and with the same frequency the impairment test is carried out on the equity investments in associates and the other non-current assets, also without any impairment indicators.

Considering the numerous changes occurred during the year in the assets of the regulated activities and the presence of impairment indicators for non-current assets, we devoted special audit attention to this financial statement area.

With reference to the impairment test, we addressed our audit procedures in order to:

- i) assess the consistency of the estimate method used by the Group with the provisions of IAS 36 and the valuation practice,
- ii) verify the process of identification of the Cash Generating Units (CGUs), based on the current organisational structure,
- iii) verify the appropriateness of the types of cash flows used and their consistency with the Group's Industrial Plan 2019-2022 approved by the Board of Directors, and updated, if necessary, to take account of the events occurred in the year, and
- iv) verify the reasonableness of the main assumptions used by management to perform the impairment test and related sensitivity analyses.

As part of our auditing we were supported, where necessary, by our PwC network experts in valuations.

Determination of the allowance for doubtful accounts – trade receivables

Note 25.b to the consolidated financial statements "Trade receivables"

The Group recognised in the consolidated financial statements as of 31 December 2019 an allowance for doubtful trade accounts for an amount equal to Euro 652 million.

At the reporting date the Group estimates the irrecoverable amount of trade receivables based

We addressed our audit procedures in order to verify the correctness of the reports generated by the information systems and used by the directors in order to determine the Expected Credit Losses that can be attributed to the balance of receivables from specific customers or customer clusters. We also tested the reasonableness of the assumptions underlying the calculation model.



on complex calculation models which rely upon the requirements in the new accounting standard IFRS 9 “*Financial Instruments*”.

The estimate of the recoverability of trade receivables is characterised by a specific complexity related to the high number of customers and to the fragmentary nature of the amounts. Furthermore, the evaluations are affected by different socio-economic variables related to the different categories of customers. Therefore, as part of our audit activities we paid particular attention to the risk of a wrong quantification of the estimate under examination.

Through inquiries of the credit managers, of the group and of individual companies, we evaluated, on a sample basis, certain specific positions by analysing the lawyers’ replies to the requests for information, by examining the guarantees given by the various customers and by assessing any other piece of information gathered after the reporting date.

Finally, we verified the consistency of the method used by the Company with the provisions of IFRS 9 and the accuracy of the mathematical calculation for the determination of the expected credit losses.

Business combinations

“Business Combination” section of the consolidated financial statements

During 2019, the Group continued the acquisition process, started in the last quarter of the prior year, of several companies operating in the Group’s relevant sectors.

The control of the aforesaid companies, recognised in accordance with IFRS 3 “*Business combinations*”, was acquired both through the acquisition of the majority of the capital shares and through the signing of a shareholders’ agreement.

The allocation of the price paid required a significant estimation process considering the assumptions used to determine the fair value of the acquired assets and liabilities.

For such matters, the directors were supported, when necessary, by external experts.

Due to the number of acquisitions and the complex issues underlying the related measurement and recognition process, we paid particular attention to such financial statement matter.

We addressed our audit procedures in order to verify the methodological correctness of the accounting process underlying the acquisitions, with particular reference to the transactions entailing the acquisition of control through the signing of a shareholders’ agreement.

Furthermore, we verified that assets and liabilities were appropriately identified as well as the reasonableness of the assumptions underlying the directors’ estimates to determine the related fair value and the allocation of the price paid.

We evaluated the technical capabilities and the objectivity of the external experts involved, as well as the methods used by them.

As part of our audit activities, we availed ourselves, where necessary, of the support of the PwC network experts in valuations.



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

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 the consolidated financial statements.

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

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;



- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

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

On 27 April 2017, the shareholders of Acea SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

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

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



Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Acea SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Acea Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Acea Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Acea Group as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

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

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

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

Rome, 16 April 2020

PricewaterhouseCoopers SpA

Signed by

Massimo Rota
(Partner)

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



Certification of consolidate financial statements in accordance with art.154-bis of Legislative Decree 58/98

(Translation from the original Italian text)

1. The undersigned, Stefano Donnarumma, as Chief Executive Officer, and Giuseppe Gola, as Executive Responsible for Financial Reporting of the company ACEA S.p.A., taking also account of provisions envisaged by Art.154-bis, paragraphs 3 and 4, of the Legislative Decree n°58 of 24 February 1998, hereby certify:

- the consistency to the business characteristics and
- the effective application

of the administrative and accounting procedures for preparing the consolidated financial statements at 31 December 2019.

2. To this purpose, no significant issues were recorded.

3. It is also certified that:

3.1 the consolidated financial statements:

- a) were drawn up in compliance the applicable international accounting standards recognised in European Community in accordance with EC regulation 1606/2002 of the European Parliament and the Council, of 19 July 2002,
- b) are consistent with the underlying accounting books and records,
- c) provide a true and correct view of the operating results and financial position of the issuer and the overall of companies included in the consolidation,

3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 16 April 2020

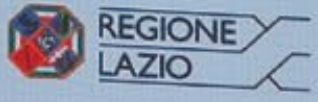
signed by: Stefano Donnarumma, The CEO

signed by: Giuseppe Gola, The Executive Responsible for Financial Reporting

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REPORT ON CORPORATE GOVERNANCE AND ON THE OWNERSHIP STRUCTURE



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GLOSSARY

Code/Self-Governance Code: the Self-Governance Code for listed companies approved in July 2018 by the Corporate Governance Committee and promoted by Borsa Italiana SpA, ABI, Ania, Assogestioni, Assonime and Confindustria

Civil Code: the Italian Civil Code

Board: the Issuer's Board of Directors

Financial Reporting Officer: Director in charge of preparing the company books

Issuer/Company/Acea: the issuer of securities the Report refers to

Year: the financial year the Report refers to

MOG: Organisation, management and control model pursuant to Italian Legislative Decree 231/2001

SB: Supervisory Body

CONSOB Issuers Regulation: the Regulation issued by Consob with resolution no. 11971 of 1999 (as subsequently amended) regarding issuers

CONSOB Related Parties Regulation: the Regulation issued by Consob with resolution no. 17221 of 12 March 2010 (as subsequently amended) regarding transactions with related parties

Report: the report on corporate governance and ownership structure that companies are required to prepare pursuant to art. 123 bis TUF

SCIGR/Control System: Internal control and risk management system

TUF: Italian Legislative Decree no. 58 of 24 February 1998

1. THE ISSUER'S PROFILE

Acea, a company listed on the online stock market organised and managed by Borsa Italiana SpA since 1999, is a leading Italian multi-utility company that has been operating for more than a century in the sectors of energy (from the generation, distribution and sale of electricity and gas to the management of Public Lighting), integrated water services (from capture and distribution to purification) and environmental services (the treatment and economic management of waste).

Always sensitive to the principles of corporate social responsibility, Acea conceives its economic activities in the context of the principle of sustainable development, according to which the requirements of economic efficiency and legitimate profit must be consistent with environmental protection and social development.

In adopting the choice of sustainability, Acea integrates the goal of customer satisfaction with that of creating value for the shareholders, at the same time paying attention to the needs of society and respecting the environment; it takes avail of the professional skills of its employees and enhances management responsibility in the achievement of the Company's objectives.

According to the most recent data, to date the Acea Group is the leading national operator in the water sector for inhabitants served, one of the major Italian operators in the distribution of electricity to users (the third for volumes distributed), the third operator for energy volumes sold to end users, and the sixth national operator in Waste-to-Energy (environmental sector).

This report illustrates the corporate governance system adopted by Acea SpA which is based on a series of principles, rules and procedures, in line with the criteria indicated in the Corporate Governance Code, and inspired by the applicable recommendations issued by CONSOB and, more in general, according to international best practices.

The corporate governance system adopted by Acea is essentially aimed at creating value for the shareholders over the medium-long term, in the awareness of the social relevance of the activities in which the Group is engaged and of the consequent need to ade-

quately consider, in the exercise of the governance system, all the interests involved.

The governance model

Acea's corporate governance model complies with the traditional Italian administration and control system and is composed of the following bodies: the Shareholders' Meeting, which, for matters within its remit, expresses the shareholders' will through its resolutions, the Board of Directors (composed of 9 members) who are entrusted with the strategic management of the company for the pursuit of the corporate purpose and the management of the most important transactions, while the operational management is entrusted to the Managing Director; the Board of Statutory Auditors, a body with independent responsibilities and powers, and appointed on the basis of the requisites of professionalism, integrity and independence defined by law, with supervisory functions over the administration and observance of the law and the articles of association.

In compliance with the recommendations of the Corporate Governance Code, the Board of Directors has established 3 internal Board Committees that offer proposals and consulting and perform preliminary investigations for the benefit of the Board itself.

The statutory audit of the accounts is carried out, pursuant to law, by a specialist auditing firm (PricewaterhouseCoopers SpA) listed on the specific register of qualified auditors, appointed by the Shareholders' Meeting by a grounded proposal of the Board of Statutory Auditors.

The Supervisory body as per Italian Legislative Decree no. 231/01 is nominated by the Board of Directors.

The information contained herein refers to financial year 2019 and, in relation to specific subjects, it is updated as at 09/03/2020, the date of the Board of Directors' meeting which approved this Report, the text of which is published at www.gruppo.acea.it, in the "Corporate Governance" section.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (art. 123 bis TUF, para. 1)

a) Structure of the share capital (as per art. 123 bis TUF, para. 1 lett. a)

The Company's capital, equal to € 1,098,898,884.00, entirely underwritten and paid up, is divided into 212,964,900 ordinary shares with a par value of € 5.16 each, listed on the online stock market organised and managed by Borsa Italiana (see Table 1). There are no shares with limited voting rights or without voting rights, except 416,993 treasury shares for which the voting right is suspended in accordance with art. 2357-ter of the Italian Civil Code.

b) Restrictions on share transfers (as per art. 123 bis TUF, para. 1 lett. b)

There are no restrictions on share transfers except for individual constraints of the single shareholders.

c) Relevant stakes (as per art. 123 bis TUF, para. 1 lett. c)

Relevant stakes, held directly or indirectly, pursuant to art. 120 of the TUF, according to the information published on 09/03/2020 on the CONSOB website and the communications made in compliance with the same article, are listed in Table 1.

d) Shares bearing special rights (as per art. 123 bis TUF, para. 1 lett. d)

No shares bearing special controlling rights have been issued.

e) Stakes held by employees: the voting rights exercise mechanism (as per art. 123 bis TUF, para. 1 lett. e)

According to art. 13 of Acea's Articles of Association, to facilitate the collection of proxies from shareholders employees of the Company, its subsidiaries and affiliates and shareholders' associations, with the requisites contemplated by the related provisions in force, specific spaces are made available for the communication and collection of the proxies.

There are no particular mechanisms for exercising rights.

f) Voting right restrictions (as per art. 123 bis TUF, para. 1 lett. f)

Under art. 6 of the Articles of Association, with the sole exception of Roma Capitale, any shareholder whose stake exceeds 8% of the share capital must be disclosed to the Company. This limit is considered as reached, in both direct and indirect terms, as specified in more detail in paragraphs 2 and 3 of the said article and as described in the chapter "Shareholders' Meetings" of this Report. In the case of breach of this rule, the exercise of the vote for the shares exceeding the said limit will be forbidden and, in the case of a resolution by a determining vote deriving from the shares exceeding said limit, the resolution may be challenged.

g) Shareholders' agreements (as per art. 123 bis TUF, para. 1 lett. g)

The Company is not aware of any shareholders' agreements of any kind, as contemplated under art. 122 of the TUF, or of any special powers of veto or of any other extraordinary influence on the decisions that are not direct expressions of the shares held.

h) Change of control clauses (as per art. 123 bis TUF, para. 1 lett. h) and statutory provisions on takeover bids (as per art. 104, para. 1 ter, and 104 bis, para. 1)

Acea has entered into some important agreements that take effect

or which are nullified in the case of a change of control of the contracting company.

Following are the significant agreements in place where the change of control involves the initiation of a negotiation procedure, where (a) the occurrence of such a case is disclosed, (b) the parties consult within a defined time frame to assess possible mitigations to any adverse effects of the change of control and (c) if the outcome of the consultations is negative, the bank may request early repayment:

- Loan totalling an initial € 100 million from the CDP (Cassa Depositi e Prestiti);
- Long term loan totalling an initial € 150 million from the European Investment Bank (Water segment);
- Long term loan totalling an initial € 200 million from the European Investment Bank in favour of Acea SpA (Water segment II);
- Long term loan totalling an initial € 200 million from the European Investment Bank in favour of Acea SpA (Network Efficiency III).

With regard to takeovers, the Company's Articles of Association do not waive the provisions of art. 104, paragraphs 1 and 1 bis, of the TUF, nor are neutralisation rules, provided under art. 104 bis, para. 2 and 3 of the TUF.

i) Delegations for capital increases pursuant to art. 2443 of the Civil Code or the directors' power to issue financial instruments and authorisation for the purchase of treasury shares (art. 123 bis TUF, para. 1 lett. m)

As at 31 December 2019 and also at the date of this Report, the Board of Directors has not been delegated to increase the share capital or to buy treasury shares.

However, as mentioned, the Company currently has 416,993 treasury shares for which the voting right are suspended pursuant to art. 2357-ter of the Civil Code, which are the remaining treasury shares authorised by an Ordinary Shareholders' Meeting resolution of 23 October 1999, amended by an Ordinary Shareholders' Meeting resolution of 29 April 2000, renewed by an Ordinary Shareholders' Meeting resolution of 31 October 2001 and with the additions inserted by an Ordinary Shareholders' Meeting resolution of 30 April 2002.

l) Management and coordination (as per art. 2497 et seq. civil code)

Arts. 2497 and following of the Civil Code are not applicable inasmuch as Acea autonomously defines its strategic policies and has full organisational, managerial and negotiating independence, not being subject to the governance and coordination of another subject. It must be noted that:

- the information required by art. 123 bis, para. 1, lett. i) ("agreements between the Company and the directors... which provide for indemnity in the case of resignation or unfair dismissal or if their professional relationship ceases subsequent to a takeover") is contained in the Report on remuneration policy and compensation paid published in accordance with art. 123 ter of the TUF;
- the information requested by article 123 bis, para. 1, lett. l) ("rules applicable to the replacement of directors... and to amendments to the articles of association, if different from and additional to the applicable legislative and regulatory provisions") are illustrated in the section of this Report on the Board of Directors (Para. 4).

3. COMPLIANCE (as per art. 123 bis, para. 2, lett. a, TUF)

Acea constantly applies the prescriptions of the Self-Regulatory Code, which contains an articulated series of recommendations relating to the methods and rules for the governance and control of listed companies.

Although the adoption of the principles contained in the Code is not required by any legal obligation, Acea has adhered to the current Code since its 2001 version.

The complete text of the Corporate Governance Code is available to the public on the Borsa Italiana website <https://www.borsaitalia.it/comitato-corporate-governance/codice/2018clean.pdf>

The Company provides information annually on its governance system and on its adherence to the Code by means of a Report, drawn up also pursuant to art. 123 bis of the TUF, which shows the degree

of adherence to the principles and application criteria established by the Code itself and to international best practices.

The yearly Report is made available to the Shareholders, together with the documentation required for the Shareholders' Meeting called to approve the financial statements, and it is also immediately published on the Company's Internet site (www.gruppo.acea.it) in the "Corporate Governance" section.

On 31 January 2020, the Corporate Governance Committee approved the new Corporate Governance Code.

The Code will apply from the first financial year starting after 31 December 2020 and companies will have to inform the market in their corporate governance report to be published in 2022.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT (art. 123 bis, para. 1, lett. l, TUF)

Directors are appointed and replaced in compliance with the laws in force, as adopted and integrated, within the limits allowed, by the provisions of the Articles of Association.

According to the provisions of the Company's Articles of Association, the Board of Directors is composed of no less than five and no more than nine members, appointed by the Ordinary Shareholders' Meeting (which determines the number within those limits) for a term equal to three financial years and they may be re-elected on expiry of their mandate.

Directorships can only be held by those with the requisites laid down by law and by the regulatory provisions.

Directors are elected as described in art. 15.1 of the Articles of Association, which establishes that:

- there must be a gender balance in the composition of the Board of Directors, as disciplined by law¹;
- the directors are elected on the basis of lists, each of which contains as many candidates, each indicated by a progressive number, as the number of directors to be elected, and each list must have at least two candidates qualified as independent as contemplated by law, one of which must be first or second on the list and the other must be within the first four on the list;
- the election is carried out as follows:

A. from the list that has obtained the majority of votes (hereinafter, for brevity, the "Majority List"), half plus one of the directors to be elected, rounded down to the nearest whole number in the case of a fractioned number, will be chosen in the progressive order in which they are placed on the said list;

B. without prejudice to the rulings of law and the provisions of the Articles of Association on the limits to the connection with the Majority List, the remaining directors will be taken from the other lists. For this purpose, the votes obtained by the said lists will be divided, within the sphere of each list, by 1, 2, 4 and 8 and so on, up to the number of directors to be elected. The ratios thus obtained will be progressively assigned to the candidates of said lists, according to progressive order by which they are indicated. The ratios thus attributed to the candidates of the various lists will be placed in a single classification in decreasing order. Those with the highest ratios will be elected.

If several candidates have obtained the same ratio, the candidate elected will be that on the list of which no director is otherwise elected or the list with the lowest number of elected directors. If no director is elected from such lists or if the same number of directors is elected from such lists, the candidate elected will be the one that has obtained the highest number of votes. In the case of parity between the list votes and of parity of ratios, the entire Shareholders' Meeting will vote again and the candidate with the simple majority of votes will be elected.

In any case, if a correctly drawn up list is presented in addition to the Majority List, the candidates of such a list will be elected according to the order of presentation".

The adopted election mechanism guarantees that at least one director represents the minorities and that the legally required minimum

number of independent directors is elected (one in the case of a Board of Directors with no more than seven members, two if there are more than seven members) in compliance with art. 147 ter, para. 4, TUF.

The lists must be presented twenty-five days before the date scheduled for the first meeting, by shareholders that, alone or with other shareholders, represent the minimum participation in the share capital established pursuant to art. 144-quarter of the Regulations for Issuers by Executive Determination no. 28 of 30 January 2020 of the CONSOB (this quota is equal to 1% of the share capital).

No candidate may be on more than one list and no shareholder may vote for more than one list. The lists of candidates are filed at the Company's head office and they are also disclosed by publication, by the Company and at this latter's expense, in three national daily newspapers, two of which are financial.

Director termination of office

Pursuant to art. 15.3 of the Articles of Association: *"If a director appointed on the basis of the above-mentioned list vote leaves office, the Board of Directors will provide for his replacement by the co-option, in accordance with art. 2386 of the Civil Code, with the first candidate not elected on the list on which the outgoing director was a candidate, in respect of the legal provisions on gender balance, or, if that list has no more candidates, with the first of the non-elected candidates regardless of the relative list; however, if the outgoing director is not on the Majority List, the absence of connection with the Majority List must be respected. If the outgoing director had the requisites of independence and/or belonged to the less represented gender and the number of independent directors and/or those of the less represented gender consequently fall below the minimum number required by law, the first non-elected candidate of the list of the outgoing director with the requisites of independence required by law and/or of the less represented gender will be appointed. Directors thus appointed will remain in office until the next Shareholders' Meeting".*

Director replacement

Pursuant to art. 15.4 of the Articles of Association: *"If a director leaves office during the financial period, the Shareholders' Meeting, by a relative majority vote, will elect his replacement, as far as possible in respect of the rules in force on independence and gender balance, from the non-elected candidates on the same list as that of the outgoing director. The newly appointed director must have provided, at least ten days before the date scheduled for the Meeting, written confirmation of his candidature as well as the declarations that no reasons exist for his ineligibility or incompatibility and that he holds the requisites prescribed for the office by the laws in force and the Articles of Association.*

If this replacement procedure is not possible, a resolution must be passed by a relative majority vote, always in respect of the representation of the minorities and the minimum number of independent directors.

A director thus appointed will remain in office until the expiry of the term of office of the other directors.

If, for any reason, the number of Board Directors falls below half the established number, the entire Board of Directors will fall from office and the Shareholders' Meeting must be summoned immediately for its reconstitution. However, the Board of Directors will remain in office for the execution of acts of ordinary administration until the Shareholders'

¹ It should be noted that Italian Law no. 160 of 27 December 2019 ("2020 Budget Law") amended the provisions of articles 147-ter and 148 of Italian Legislative Decree no. 58/98 on gender balance in the bodies of listed companies by making sure that the least represented gender accounts for at least two fifths (40%) and establishing that this apportionment criterion applies for six consecutive mandates.

Meeting has resolved on its renewal and until at least half of the new directors have accepted their appointment”.

Majorities required for statutory amendments

With reference to amendments to the Articles of Association, the Extraordinary Shareholders' Meeting, in compliance with art. 12 of the Articles of Association, will adopt the necessary resolutions with the majorities required by law.

Succession plans

The Board of Directors, in consideration of the procedures for the appointment of the executive directors, who represent the major shareholder, and the assessments expressed by the latter, has deemed it unnecessary to develop a succession plan for said directors, but adopted a contingency plan that details the actions to be taken if sudden event prevent the Managing Director from exercising his or her functions.

If an executive director leaves office, the Board of Directors may co-opt a new director in their place and determine the powers to be vested on the latter. The first appropriate Shareholders' Meeting will then provide for their successive inclusion on the Board of Directors.

4.2 COMPOSITION (as per art. 123 bis, para. 2, lett. d, TUF)

Pursuant to art. 15.1 of the Articles of Association, the Company is governed by a Board of Directors composed of at least five and no more than nine members appointed by the Ordinary Shareholders' Meeting which determines the number within those limits.

The current Board, composed of 9 directors, was appointed by the Shareholders' Meeting in April 2017 and will remain in office until the approval of the financial statements for the 2019 financial year. The following directors were taken from the majority list presented by the shareholder Roma Capitale: Michaela Castelli, Stefano Antonio Donnarumma, Luca Alfredo Lanzalone, Gabriella Chiellino, Liliana Godino.

Alessandro Caltagirone and Massimiliano Capece Minutolo Del Sasso were elected from the minority list presented by Fincal SpA, while Giovanni Giani and Fabrice Rossignol were elected from the minority list presented by Suez Italia SpA.

Following the resignation from the office of Chairman of the Board of Directors of Acea SpA by Mr. Lanzalone, on 21 June 2018, the Board of Directors elected Michaela Castelli as Chairman.

Subsequently, on 15 March 2019 Mr. Lanzalone also resigned from his position as a member of the Board of Directors of Acea, after which the majority shareholder Roma Capitale, from whose list he had been elected, submitted a formal request pursuant to 126 bis, paragraph 4, of Italian Legislative Decree no. 58/1998 to update the agenda of the Company's Shareholders' Meeting scheduled for 17-18 April 2019, proposing the insertion of the item "appointment of a director". The shareholders' meeting of 17 April 2019 thus appointed Ms. Maria Verbena Sterpetti as Director of Acea.

In December, Director Fabrice Rossignol resigned for professional reasons.

On the recommendation of the Appointments and Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, the Board of Directors co-opted Ms Diane Galbe, a new director to replace the resigning director Rossignol pursuant to art. 2386 of the Italian Civil Code and art. 15, paragraph 3 of the by-laws, as the first of the unelected candidates on the same list.

Therefore, at the date of this report, the Board of Directors is composed as follows: Michaela Castelli, Stefano Antonio Donnarumma, Gabriella Chiellino, Liliana Godino, Maria Verbena Sterpetti, Alessandro Caltagirone, Massimiliano Capece Minutolo Del Sasso, Giovanni Giani and Diane Galbe.

Of the above directors in office, one is an executive director – Ste-

fano Antonio Donnarumma – to whom the Board of Directors has delegated individual managerial powers, whereas the remaining 8 are non-executive directors.

Some information of a personal and professional nature on the directors in office is given below:

Michaela Castelli

Chairperson – Non-Executive

Michaela Castelli was born in Rome on 7 September 1970. After graduating in Law and specialising in Financial Law, she began working in London in Capital Markets. She subsequently gained experience in leading Italian law firms, dealing with corporate law and financial markets. She worked for 9 years at Borsa Italiana SpA where she was involved in assisting listed issuers with extraordinary transactions, corporate reporting, compliance and corporate governance.

Registered with the Milan Bar Association, she is an expert in organisation, corporate compliance, internal controls and 231 regulations and has gained significant experience as a member of Boards of Directors in major listed and unlisted companies. She is also a member of boards of statutory auditors and supervisory bodies.

Author of trade publications and lecturer in various continuing education courses in corporate and financial market law, she has participated in numerous conferences as a speaker.

Appointed on the basis of list no. 1 presented by Roma Capitale (containing: no. 1 Luca Alfredo Lanzalone, no. 2 Michaela Castelli, no. 3 Stefano Antonio Donnarumma, no. 4 Gabriella Chiellino, no. 5 Liliana Godino, no. 6 Marco Di Gregorio, no. 7 Maria Verbena Sterpetti, no. 8 Annaluce Licheri); the related proposal for appointment obtained the favourable vote of 73.2743% of the voters.

Stefano Antonio Donnarumma

Managing Director – Executive

Stefano Antonio Donnarumma was born in Milan on 29 October 1967, graduated in Mechanical Engineering in 1993 with full marks and has been enrolled in the Register of Engineers since 1994.

Married with three children, Stefano Antonio Donnarumma has extensive national and international experience in industrial management both in production and infrastructure.

Starting in 1994, he worked for about 13 years in the production of vehicle/railway components and rolling stock for four foreign multinationals (Ruetgers Automotive, TMD Friction, Bombardier, Alstom), also managing primary production plants for railway vehicles in Italy.

In 2007 he moved on to the sector of public service infrastructure management, joining the Acea Group, holding the position of Executive Chairman of Acea Distribuzione (electricity networks of Rome) and Director of Acea Ato 2 (water networks of Rome and the province).

In September 2012 he joined the Aeroporti di Roma Group (controlled by Gemina, subsequently merged into ATLANTIA) in the role of Airport Management Director and Accountable Manager of Fiumicino and Ciampino Airports and Director of some Group companies.

In May 2015 he took up the position of Director of Networks of the A2A Group, a listed multi-utility company in Milan and Brescia, managing the group companies in the distribution of gas, electricity, water, district heating and Public Lighting. For A2A he is also Chairman of Unareti SpA, A2A Calore e Servizi Srl, A2A Ciclo Idrico SpA and Director of the LGH SpA Group.

He is also Vice President of UTILITALIA, the Italian utility association. Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Gabriella Chiellino

Director – Non-Executive – Independent

Gabriella Chiellino was born in Pordenone on 21 March 1970, she graduated in Environmental Science at Ca Foscari University in Venice in 1994. She has worked in the field of sustainability for over

20 years, covering various roles in the university context, teaching scientific subjects regarding environmental and energy management in companies. She was a member of various scientific technical committees in the public and private sector, also coordinating international events on matters linked to sustainability (water, waste, smart city). 15 years ago she founded an environmental and energy engineering company, of which she now chairs the BoD, which operates in Italy and overseas. As an expert of corporate Sustainability Governance, she steers and coordinates various Corporate Sustainability Committees. She is the author of various publications and articles on environmental and ethical matters and is a lecturer in various university courses.

Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Liliana Godino

Director – Non-Executive – Independent

Liliana Godino was born in Genoa on 8 April 1962, she completed her education at l'Haute Ecole du Commerce in Paris, specialising in "Corporate Economy and Marketing".

She is Chief Procurement Officer of Gruppo Messina SpA She was the General Affairs and Organisation Director of Baglietto Srl, which produces certified steel for global ship building sites. She was the Purchases and Logistics Director of Grandi Navi Veloci SpA. She spent 18 years in Danone SA, a global agro-foodstuff comply, first in consumer marketing with experience on national and international level and then in procurement, her last role being the Worldwide Sourcing Director for Packaging at the Headquarters in Paris. She was a member of the Board of Directors of the International School in Genoa.

Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Maria Verbena Sterpetti

Director – Non-Executive – Independent

Maria Verbena Sterpetti was born in Rome on 23 July 1986, graduated in law with 110 cum laude from the University La Sapienza of Rome in 2010 and has been registered in the Rome Bar Association since March 2014. She worked at various notary and law firms. Since July 2014 she has been working on her own in the Sterpetti law firm, specialised in civil and commercial law.

Appointed on the basis of list no. 1 presented by the aforementioned Roma Capitale.

Alessandro Caltagirone

Director – Non-Executive – Independent

Alessandro Caltagirone was born in Rome on 27 December 1969, he graduated in Economics and Commerce at La Sapienza University in Rome. He is current a Board Member in many companies amongst which: Il Messaggero SpA, Cementir Holding SpA, Caltagirone SpA, Caltagirone Editore SpA and Deputy Chairman of the Board of Directors of Cementir Holding N.V. and Alborg Portland Holding A/S.

Appointed on the basis of list no. 2 presented by Fincal SpA, as at the date of the Shareholders' Meeting of appointment, he held 2.676% of the share capital (containing no. 1 Alessandro Caltagirone, no. 2 Massimiliano Capece Minutolo Del Sasso, no. 3 Azzurra Caltagirone, no. 4 Mario Delfini, no. 5 Tatiana Caltagirone, no. 6 Albino Majore, no. 7 Annalisa Mariani) he obtained the favourable vote of 12.8175% of the voters.

Massimiliano Capece Minutolo Del Sasso

Director – Non-Executive – Independent

Massimiliano Capece Minutolo Del Sasso was born on 07 April 1968, registered in the register of engineers of Rome since 1992. Vast experience in the real estate and infrastructure sector with

competencies in design, development and management of large urban and construction projects. Currently executive of Vianini Lavori SpA. and board member in several companies, including G.S. Immobiliare SpA, Vianini SpA and Fincal SpA.

Appointed on the basis of list no. 2 presented by the aforementioned Fincal SpA.

Giovanni Giani

Director – Non-Executive – Independent

Giovanni Giani was born in Lecco on 14 January 1950, engineer, manager with vast international experience in business development and the management of companies in the sector of services for society as a whole and in the industrial sector, and expert in international industrial relations. At present he holds the office of Managing Director of Suez Italia SpA, the Italian holding company of the Suez Group.

Appointed on the basis of list no. 3 presented by Suez Italia SpA, as at the date of the Shareholders' Meeting of appointment, he held 12.483% of the share capital (containing no. 1 Fabrice Rossignol, no. 2 Giovanni Giani, no. 3 Diane Galbe, no. 4 Mauro Alfieri, no. 5 Massimo Lamperti, no. 6 Francesca Menabuoni, no. 7 Marica Lazarin, no. 8 Diego Colmegna, no. 9 Susanna Mancini) and obtained the favourable vote of 13.7804% of the voters.

Diane Galbe

Director – Non-executive – Independent

Diane Galbe was born in Paris on 14 January 1981 and was recently appointed Deputy General Manager of Suez with responsibility for the Worldwide Smart & Environmental Solutions Business Unit. She continues to manage Group Strategy and the "Shaping SUEZ 2030" Transformation Plan. She is also a member of the Suez Group Executive Committee. The new Smart & Environmental Solutions Business Unit aims to accelerate the development and worldwide deployment of digital and decentralised solutions based on performance and environmental quality. Smart City, smart agriculture, climate and air. A graduate of Commercial Law from Panthéon-Assas University in Paris II and former lawyer at Bredin Prat law firm, she joined the SUEZ Group in 2007, where she held various responsibilities both in central functions in Paris and for the Asia Business Unit based in Hong Kong. She was appointed Chief of Staff of the Group's Managing Director in 2013. In January 2017 she became Director of Finance and Strategy for the Italy, Central and Eastern Europe Business Unit and General Manager of the Group's Soil Depollution and Industrial Decommissioning activities. Since May 2019, she has been Director of Group Strategy and Project SUEZ 2030.

Diversity criteria and policy

Since the renewal of the Acea corporate bodies in 2013, the balanced representation of genders has been ensured in the composition of the Company's Board of Directors as required by Italian law no. 120 of 12 July 2011 and the TUF.

In particular, compliance with this regulation is ensured by the Articles of Association, which were amended by resolution of the Board of Directors on 24 January 2013 to implement the provisions of Italian Law 120/2011.

The Acea SpA Shareholders' Meeting punctually implemented law 120/2011 regarding equal access to governing and control bodies of companies listed in regulated markets, appointing board members of different genders.

With regard to other aspects of diversity in the composition of the Board, it should be noted that in view of the Shareholders' Meeting called for the appointment of the 2017 Directors, the Acea Board expressed its position to the shareholders on the qualitative and quantitative composition of the new Board that it deemed optimal. In particular, the outgoing Board had underlined that among other

things the composition had to take into account the need for diversity, including gender and seniority, in compliance with applicable legal provisions. Furthermore, the Board underscored that the Board's mix of expertise should be well balanced. The current composition appears to be in line with the above orientation.

In the subsidiary companies, Acea SpA also ensures the appointments of governing and control bodies again in respect of gender numbers.

It should be noted that the current composition of the Board of Statutory Auditors also complies with the provisions of the aforementioned Italian Law 120/2011.

In line with the principles expressed in the Code of Ethics, Acea has promoted a culture of equal opportunities and the management and enhancement of diversity through the adoption of a Charter for Diversity Management (see section 11.4.1).

It should be noted that on 9 March 2020, after receiving the opinion of the Appointment and Remuneration Committee, the Board of Directors adopted the "diversity policy for the composition of the administrative and control bodies" ("Policy"), promoted by the Ethics and Sustainability Committee.

The Policy aims to ensure the proper operation of Acea's corporate bodies by regulating their composition and providing that their members have personal and professional requirements that meet the highest degree of diversity and competence.

The Board of Directors is aware of the fact that diversity and gender balance are fundamental elements of the corporate culture of a corporate group. In particular, as fundamental elements of sustainability in the medium-long term, diversity and gender balance represent a reference paradigm for both Acea Group employees and members of the company's management and control bodies.

In line with the Policy and taking into account the conclusions of the self-assessment, the Board informed the shareholders of its orientation with regard to the optimal qualitative-quantitative composition of the new administrative body in view of the renewal of the Board of Directors which will take place with the shareholders' meeting called to approve the financial statements for the year ended 31 December 2019. In this document, with regard to the quantitative aspect, the Board believes that the number of members must be adequate to the size and complexity of the Company and the Group's organisational structure. As for the qualitative aspect, the Board expresses the hope that the shareholders will take into account Acea's current and prospective needs, as well as the need to maintain an important presence of independent directors with a diversity that respects the applicable legal provisions and the recommendations of the Corporate Governance Code, ensures a balance between genders and provides for a balanced combination of different age groups and educational backgrounds so as to allow a balanced plurality of perspectives and managerial and professional experience.

Maximum number of offices simultaneously held in other companies

At its meeting of 23 March 2011, subject to the favourable opinion of the Internal Control Committee (as it was called at the time), the Board resolved that the maximum number of offices that each Director may hold in other companies listed on regulated markets (including foreign markets) in financial, banking, insurance companies or companies of significant size is 10, including the seat held in Acea, so that maximum availability is guaranteed for performing necessary duties.

All the Directors in office, already when the lists were filed and, later, on their acceptance of their mandate, as well as on an annual basis specified the offices that they held in other companies listed on regulated markets, even abroad, in financial, banking and insurance companies and in companies of relevant dimensions.

On the basis of the updated communications received by the Company in implementation of the resolutions passed, all the Di-

rectors, at 9 March 2020, cover a number of roles compatible with the guidelines laid down by the Board itself.

Table 1, at the foot of this Report, lists the offices held by the Directors and Statutory Auditors in other companies listed on regulated markets, also abroad, in financial, banking and insurance companies and companies of relevant dimensions.

Induction Programme

In compliance with the provisions of the Corporate Governance Code on the effective and conscious performance of the role by each Director, the Chairperson of the Board of Directors of Acea, in agreement with the Managing Director, in 2019, prepared a training programme for the Board that was also attended by the Board of Statutory Auditors aimed at providing the Directors with a thorough knowledge of the Company's activities and organisation, of its sector and the regulatory framework and self-regulatory framework, of the company dynamics and their evolution and the role to be performed with respect to the specificities of Acea.

The induction initiatives carried out during 2019 concerned in particular: the illustration of the Business Plan; the Strategic Industrial Lines; issues relating to (i) industrial development in the environmental, energy and overseas segments; (ii) the possible development of the engineering structure also for external lines, as well as development in the field of energy efficiency and innovative sectors; (iii) innovation projects.

Furthermore, the Directors are kept constantly informed by the competent corporate functions regarding the main legislative and regulatory novelties concerning the Company and the exercise of their functions.

For the Board meetings, the Managing Director and Chairperson requested the participation of Company executives whose presence could help provide the best possible information on the topics covered by the induction and, where required by the specific topic, to illustrate the regulatory framework of reference.

4.3 THE ROLE OF THE BoD

The Company's Board of Directors holds a central role in the sphere of the Company's governance, and all the departments and the managers of the Company and of the Group with strategic and organisational responsibilities (Key Managers) report to the Board of Directors. Taking its role into account, the Board of Directors meets regularly, to guarantee the effective performance of its duties.

More specifically, reserved to the Board of Directors, pursuant to law, the Articles of Association and the guidelines of the Internal Control and Risk Management System (hereinafter "Guidelines") last updated on 22 January 2020, are the duties listed below:

- define strategic and general management guidelines and steer the Company's development; economic-financial coordination of the Group's activities by approving medium-term strategic plans which incorporate the Group's development guidelines, the investment plan, the financial plan and the annual budgets; the acquisition and disposal of stakes, excluding infra-group operations;
- by proposal of the Control and Risks Committee, define the guidelines of the Internal Control and Risk Management System (hereinafter also "SCI GR") so that the main risks concerning Acea and its subsidiaries – including the various risks that can become relevant in the light of sustainability over the medium-long term period – are correctly identified and adequately measured, managed and monitored;
- define, furthermore, the nature and level of risk compatible with the identified strategic objectives;
- approve and amend the internal regulations as far as concerning the general organisational structure of the Company and

of the Group, and any amendments to the same that have a significant influence on the Group's organisation;

- appoint the General Manager, where applicable;
- define the corporate governance system and provide for the constitution, within the Board of Directors itself, of specific committees, appointing the relative members and approving their respective functioning regulations;
- adopt an Organisational and Management Model as per Legislative Decree no. 231/2001, appoint the Supervisory Body and examine the half-yearly reports drawn up by the SB concerning the implementation of the MOG;
- designate the directors and statutory auditors for Acea representation on the relative boards of its most significant subsidiaries and investee companies, understood as those listed on regulated markets and those that require the commitment of capital, shareholders' loans or guarantees exceeding € 10 million;
- attribute and revoke delegations to the delegated directors, defining the limits and procedures of their exercise;
- reserve and exercise powers for amounts exceeding € 7.5 million for Acea and its subsidiaries, if in line with the budget, and above € 1 million for off-budget expenditure;
- determine, by proposal of the specific committee and after consulting the Board of Statutory Auditors, the remuneration for the Chairman, Managing Director and other Directors vested with special roles, as well as the remuneration due to the members of the committees of the Board of Directors and the remuneration of the executives with strategic responsibilities, except in cases where the latter has been approved by the Nomination and Remuneration Committee;
- define the Guidelines, after consultation with the Control and Risks Committee (hereinafter also CRC), whose duties are illustrated in Chapter 9, so that the main risks to which Acea and the major companies of the Group are correctly identified and adequately measured, managed and monitored;
- assess the adequacy of the organisational, administrative and accounting framework of Acea and of its subsidiaries with strategic relevance, especially as regards the SCIGR;
- assess the general business performance (art. 2381 of the Civil Code) taking into consideration, in particular, the information received from the delegated bodies, periodically comparing the results achieved with those programmed;
- appoint and revoke:
 - the Internal Audit Function Manager, subject to the favourable opinion of the CRC and by proposal of the Director responsible for the SCIGR, and having consulted with the Board of Auditors, making sure that said Department is provided with adequate resources for the performance of its duties and defining the remuneration consistent with Company policies;
 - a Financial Reporting Officer, unless already provided for by the Shareholders' Meeting, by the favourable opinion of the Board of Statutory Auditors (pursuant to *art. 22-ter of the Articles of Association*), ensuring the adequacy of his powers and means for the performance of his duties;
- approve the Audit Department Manager's work plan on an annual basis, having consulted with the Control and Risk Committee, the Board of Statutory Auditors and the SCIGR appointed Director;
- having consulted with the Board of Statutory Auditors, assess the results illustrated by the independent auditor in the case of suggestions, that said Board may express in a letter or in its report, on fundamental issues that have come to light during the audit of the accounts;
- assess, at least once every year, the adequacy of the SCIGR in consideration of the Company's characteristics and risk profile and describe the main characteristics thereof in the Report

on Corporate Governance, expressing its own assessment of the adequacy of the same, after hearing the opinion of the Control and Risks Committee;

- establish corporate measures of protection for the processing of personal or sensitive data by third parties;
- adopt the procedures necessary to protect workers' health and appoint the subjects responsible for ensuring safety in the workplace;
- make all efforts to establish continuous dialogue with the shareholders based on the comprehension of the reciprocal roles;
- promote initiatives aimed at fostering shareholders' maximum participation at the Shareholders' Meetings and to facilitate the shareholders in the exercise of their rights;
- adopt, by proposal of the Managing Director, the procedures for the internal management and the external disclosure of documents and information regarding the company, especially price sensitive information and those relating to transactions in financial instruments carried out by persons who, due to their office, have access to relevant information;
- carry out self-assessment at least once a year on the functioning of the Board itself and of its Committees, and on their size and composition;
- assess, at least once a year, the independence of its non-executive members.

The Board of Directors has fulfilled the aforesaid duties, amongst others:

- during financial year 2019, it assessed the general business trend on the occasion of the financial reporting (the draft financial statements of the period as at 31 December 2018; the six-monthly interim financial report; the interim management reports on the 1st and 3rd quarters of the period), taking into consideration, in particular, the information received from the delegated bodies, and periodically comparing the results achieved with those programmed;
- resolved on the organisational amendments to the macro-structure of Acea SpA;
- carried out a comprehensive review of the Internal Control and Risk Management System, having the purpose of strengthening efficacy and efficiency also by means of identifying new subjects and coordination procedures between the various players and control levels;
- approved, during January 2020, the new Guidelines for the Internal Control and Risk Management System of Gruppo Acea;
- approved the Sustainability Report/Consolidated Statement of a non-financial nature for 2019 pursuant to Legislative Decree no. 254/2016.

On 9 March 2020, the Board of Directors:

- assessed the adequacy of the Internal Control and Risks Management System and the adequacy of the Company's organisational, administrative and accounting framework and that of its strategically relevant subsidiaries, deeming the Acea Control System, as a whole, to be suitable for the pursuit of the Company's objectives;
- as an integral part of the aforesaid assessment process, carried out self-evaluation of the composition and functioning of the Board of Directors itself and of its internal Committees. Said evaluation regarded the Board of Directors' independence, structure and composition, the functioning of the Board and of its Committees, and the information flows received by the Board and its Committees in the performance of their duties. For the execution of the assessment tasks, the Board of Directors took avail of a company specialised in the sector, as explained below.

Operation

The Board of Directors meets regularly, in compliance with the terms

of law and a works calendar, organising itself and operating in order to guarantee the effective and efficient execution of its functions.

In 2019 the Board of Directors held 13 meetings, lasting on average approximately 2 hours 30 minutes each, regularly attended by the Board Directors and the Statutory Auditors.

The attendance of each Directors at the Board of Directors' meetings is detailed in Table no. 2.

At the date of this report, 3 (three) meetings have been held since the beginning of 2020.

The calendar of the main corporate events 2020 (communicated to the Market and to Borsa Italiana SpA in accordance with regulatory requirements) includes 3 more meetings on the following dates:

- 13 May 2020 – approval of the interim report on operations as at 31 March 2020;
- 29 July 2020 – approval of the semi-annual report as at 30 June 2020;
- 10 November 2020 – approval of the interim report on operations as at 30 September 2020.

The Board of Directors has operated according to Works Regulations in force since 22 April 2003 which regulate the procedures for guaranteeing the timeliness and completeness of the pre-meeting information; they require that resolution proposals and information are received, together with all the useful documentation approved by the Managers responsible for the specific issues, at least 10 calendar days before the date of the meeting, to the Company's administrative office which will submit them, without delay, to the Managing Director for his approval, for the purpose of defining the draft agenda.

The corporate secretariat submits the resolution proposals and the related information, together with the draft agenda approved by the Managing Director, to the Chairman of the Board at least 6 days before the Board meeting.

The Chairman finalises the agenda, also inserting proposals and items of his competence, which is then transmitted, at least 3 days before that of the meeting, to the single Directors and Statutory Auditors, together with all the documentation prepared by the Company's departments.

In this last regard, it should be noted that the timeliness of making this documentation available was positively seen by the members of the Board of Directors during the self-assessment, as well as by the company Eric Salmon & Partners, which supported the Board of Directors in this activity. In fact, the analyses conducted on the subject by the expert found that *"The Directors receive timely, complete, accurate, fully intelligible information and in ways that facilitate its use (e.g. digital platforms). The information is sufficient to allow a good balance between retrospective and prospective analysis, as well as accompanied by executive summaries"*.

Finally, it should be noted that the Company has equipped itself with a special software in order to allow secure management of the Board of Directors' meetings without compromising the completeness, usability and timeliness of the information.

During 2019 the managers of the Company and of its subsidiaries with responsibility for the various items on the agendas were regularly invited to the Board of Directors meetings and, on the Managing Director's invitation, they gave the necessary information on the topics under discussion, leaving the meeting when the Board of Directors was about to vote on the relative resolutions.

Operational assessment of the Board of Directors and its Committees

The Board of Directors, according to the application criterion of 1.C. 1 lett. g) of the Self-Regulatory Code, must assess its own dimension, composition and functioning and those of its Committees (board review) at least once a year, autonomously or with the assistance of an independent external advisor.

Acea entrusted the execution of the Board Review, for a three-year

term, to the advisor Eric Salmon & Partners, a leading consultancy company with years of expertise in the field, which holds the necessary requisites of independence.

The activity carried out by the consultant consisted in assessing the Board of Directors and the Committees according to the best practices applied at an international level, also introducing an additional dimension of analysis, i.e. the indications of the BoD to the shareholders regarding the size and composition of Acea's new administrative body.

As a result, for the 2019 financial year, starting from November 2019 the Acea Board of Directors launched the third Board Review, i.e. for the end of the mandate, related to the mandate given. The Board Review was carried out via a questionnaire completed by each Director, which was followed by individual interviews by the consulting firm to examine the most relevant aspects. The Appointment and Remuneration Committee, supported by the Secretariat of the Board of Directors, carried out investigative and supervisory functions on the entire Board Review process.

The questionnaires and interviews concerned in particular:

- the final assessment of the Board of Directors' activities during the three-year period;
- the effectiveness of the BoD;
- the working method, cohesion and interaction of the Directors;
- the organisation of the BoD's work;
- the role and responsibilities of the Directors;
- the quantitative and qualitative composition of the Board of Directors;
- the composition and operation of the committees and the effectiveness of their activities in support of the Board of Directors.

As part of the Board Review process, the consulting firm also carried out a comparison (benchmarking) of Acea with other leading Italian and foreign listed companies regarding the effectiveness of the Board of Directors, its composition and "diversity", Board leadership, the quality of the debate, the committees, succession planning, information to Directors and induction processes.

The results of the Board Review for 2019 confirm a particularly positive overall picture of the operation of the Acea Board of Directors and the Committees, which shows that these bodies operate effectively and transparently in strict compliance with national and international best practices on corporate governance, as confirmed by the consulting firm.

In particular, the results of the board review for 2019 revealed the following strengths:

- the composition of the Board of Directors is based on an adequate mix of skills and differentiation of profiles, which makes it possible to examine the issues the Board is called upon to express itself on in an appropriate manner;
- the Board of Directors organises the meetings in such a way as to facilitate effective participation by the various Board members in the debate, and therefore useful discussions;
- the Board of Directors works in a calm atmosphere, with a clear definition of its role and distinction between the latter and management;
- a unanimous recognition of the Chairperson's ability to organise the orderly conduct of the Board's work and to facilitate discussion and debate;
- the Board of Directors' interaction with Acea's top management is effective;
- induction activities, gradually intensified over the three-year period, have proved to be effective and sufficiently frequent;
- the quality of the work carried out by the Committees and the support they provide to the activities of the Board of Directors are unanimously valued;
- the support of the "Board of Directors' Secretariat" is positively assessed for the various aspects concerning the coordination of the preparation of the documentation submitted to the

attention of the Board of Directors and the Committees, the timing of its submission, as well as the accuracy of the minutes. Among the most significant issues brought to the attention of some of the Board members are the following: (i) the hope that the committees will focus on the most significant issues; (ii) an analysis of the topic of top management's succession plans.

Based on the comments collected and the analysis performed, Eric Salmon & Partners has therefore expressed a positive opinion of Acea's adherence to the indications of the Corporate Governance Code for the third and last year of the Board in office, confirming a solid basis of governance of the Board of Directors and effective assistance from the support structures.

Eric Salmon & Partners also found that the Board of Directors has demonstrated that it has implemented the suggestions of the previous Board Reviews regarding areas for improvement and that it has effectively implemented a series of processes and initiatives in this regard.

4.4 DELEGATED BODIES

Managing Director

In May 2017 the Board of Directors appointed Stefano Antonio Donnarumma as Managing Director, to whom, in compliance with art. 20 of the Articles of Association, the ordinary management of the Company, the Company's signature and legal representation before third parties and in court are delegated, as well as all powers within the scope of the delegations conferred and within set commitment limits.

The Managing Director was granted all powers for the governance of the Company except those otherwise attributed pursuant to law and regulations, the Articles of Association or the power structure approved in May 2017 and updated in June 2018 (with reference to the issues that, according to said structure, are reserved to the Board of Directors, see paragraph 4.3). In particular, the Managing Director:

- operates on the basis of medium-long term plans and the annual budgets approved by the Board, and guarantees respect for the managerial guidelines deriving from the same. In this context, the Managing Director's powers are exercised for transactions up to € 7.5 million (works contracts, purchases, rentals, disposals, participation in calls for tender, etc.) if in line with the budget, and for transactions up to € 1 million for off-budget transactions; for the Group's subsidiaries operating on the energy – electricity and gas – market, the powers vested on the Managing Director include: i) the issue of sureties and other guarantees up to € 12 million if in line with the budget and up to € 2 million for off-budget operations; ii) the issue of all the sureties and other obligatory guarantees in favour of Arera [the Italian electricity, gas and water authority], GSE [the energy services provider], GME [manager of the energy markets], Terna SpA, the Single Buyer and other public subjects and the distribution concessionaires;
- signs the works agreements of any amount awarded according to Legislative Decree 50/2016 as amended;
- implements the organisational and procedural changes in the Parent Company's activities according to the guidelines approved by Board of Directors' resolution;
- chairs and coordinates the Management Committee, which is an advisory committee composed of Company managers, with the task of verifying the Group's operational economic situation and that of the single business units and any gaps compared to the planned targets;
- ensures correct management of corporate information. To this regard, we refer you to Chapter 5 "Corporate Information Processing".

The Managing Director informs the Board of Directors and the Board of Statutory Auditors at least every quarter and, in any case, on the occasion of the Board of Directors' meetings, on the activi-

ty performed and the Company's business trend, on the business outlook and on transactions of major relevance for their dimensions or features, carried out by the Company or its subsidiaries, in compliance with art. 20.1 of the Articles of Association.

The Managing Director is also the Director responsible for the Internal Control and Risks Management System, according to the indications of the Self-Regulatory Code (for a detailed description of the duties attributed to the same in that capacity, please refer to paragraph 11.1 of this Report).

Chairman

The Chairperson of the Board of Directors, Michaela Castelli, according to art. 20 of the Articles of Association, is the Company's legal representative with power of signature, and also has the power to summon and chair Board of Directors' meetings and Shareholders' Meetings.

With a Board resolution of 21 June 2018, it was established that the duties associated with the office of Chairman of the Company include the power to represent Acea SpA in Italy and abroad, in relations with the central and peripheral State Administration, with national and local Public Bodies, with other Public Administrations, with Institutional and Trade Union Bodies, with natural and legal persons, with associations, companies and any other public or private entity and for matters regarding income and spending. The Chairperson verifies the implementation of the Board of Directors' resolutions and the Corporate Governance rules, also in implementation of the powers reserved to the Board of Directors.

Furthermore, the Chairperson monitors the quality indicators provided and oversees the perceived quality indicators and the issues relating to environmental impacts and corporate social responsibility of company activities and processes.

Due to the assignments described, the Chairperson is responsible for supervising the administration of the Board of Directors and all related activities; the power to carry out all the activities envisaged by the current legislation on press and communication, including through the publication of journalistic and online publications, as well as the appointment of the relevant Responsible Director in accordance with the law on the press, to be identified among the employees of the group meeting the legal requirements.

The Board of Directors' activities are coordinated by the Chairperson, who calls the Board meetings, establishes the agenda and directs the works, ensuring that the Directors are promptly given – except in the case of need or urgency – the documentation and information necessary to allow the Board to give a conscious opinion on the matters submitted to its examination.

Without prejudice to the above, the Chairperson has not received management powers and does not play a specific role in the development of corporate strategies.

Chairman and Managing Director, Joint Powers

By Board resolution of 21 June 2018, moreover, joint powers were delegated to the Chairperson and the Managing Director who, in the case of proven urgency and need, are thus authorised to exercise the powers normally reserved to the Board in relation to contracts, purchases, company transformation, participation in tender procedures, the issue of sureties and, when the urgency does not allow for calling a meeting of the Board of Directors (which must be informed at the next meeting to check on the existence of the need and urgency), the designation of members of the Boards of Statutory Auditors and the Boards of Directors of the most important subsidiaries and partly held companies, these being understood as:

- those listed on regulated markets or with securities on issue as contemplated by art. 116 of the TUF [Consolidated Finance Act];
- those requiring capital commitments, shareholders' loans or guarantees exceeding € 10 million.

In addition, the Chairperson and the Managing Director designate

the members of the Boards of Statutory Auditors and the Boards of Directors of the companies of the Acea SpA Group other than those considered of “more importance”.

Executive Committee

With a resolution dated 21 June 2018, pursuant to art. 2381 of the Italian Civil Code and art. 20 of the Articles of Association, the Board of Directors established an Executive Committee composed of Giovanni Giani (Chairman), Michaela Castelli, Stefano Antonio Donnarumma and Massimiliano Capece Minutolo Del Sasso, to whom the powers relating to institutional affairs, sponsorships and donations have been delegated, to be managed within the budget established by the Board.

The methods of exercising these powers are governed by specific regulations approved by the Board of Directors.

During the 2019 financial year, the Executive Committee met 8 times with an average meeting duration of 1 hour and 15 minutes.

As at the date of this Report, the Committee has met 2 times, with an average duration of one hour.

Informing the Board

The Board of Directors, as also the Board of Statutory Auditors, in compliance with art. 20 of the Articles of Association and the provisions of law, receives from the Chairperson and the Managing Director constant and full information on the activities performed, summed up at least quarterly in a report on the general business trend and the relative outlook. More specifically, with reference to transactions of major relevance carried out within the sphere of their powers, including any non-typical transactions and those with related parties, providing the approval of which is not reserved to the Board of Directors, the Managing Director and the Chairperson report to the Board on the features of said transactions, the subjects involved and their connection, if any, with the Group, the determination methods and the relative economic and financial effects.

Furthermore, the BoD and the Board of Statutory Auditors receive periodic information on the exercise of the powers conferred on the bodies delegated by the Board of Directors.

4.5 OTHER EXECUTIVE DIRECTORS

No other executive Directors are envisaged.

4.6 INDEPENDENT DIRECTORS

The Company's Board of Directors has a number of independent directors who represent the absolute majority of its members.

In fact, as at 31 December 2019, and to date, the Board has 7 independent non-executive directors, namely: Gabriella Chiellino, Liliana Godino, Maria Verbena Sterpetti, Alessandro Caltagirone, Massimiliano Capece Minutolo Del Sasso, Diane Galbe and Giovanni Giani (see Table 2).

The procedure followed by the Board to verify their independence involves the declaration of the existence of the requisite on the part of the director on presentation of the list and at the moment of ac-

ceptance of the appointment, and subsequent verification by the Board of Directors at the first meeting after the appointment.

Subsequently, the assessment of the existence of the independence requirements for Directors is carried out on the basis of the information provided by the parties concerned (by filling in the forms declaring the existence of the independence criteria set out in art. 3 of the Code). On this point, note that in the assessment of the requisites of independence, no parameters other than those set out in the Self-Governance Code have been used.

Based on the declarations received, as recently as March 2020 the Board of Directors certified the satisfaction of the independence requirements envisaged by law and the Corporate Governance Code for the aforementioned Directors. It should be noted that they also meet the independence requirements set forth in art. 148, paragraph 3 of the TUF.

The independent directors also promise to immediately inform the Board of Directors of any situation which entails their loss of this requisite. During the year, it was not necessary to hold a separate meeting of the independent directors, also in consideration of the quality of the information received from the delegated bodies and their active participation in the Board and in the Board's internal committees, which consist mainly of independent directors, in particular the Appointment and Remuneration Committee and the Related Parties Committee are composed only of independent directors. This allowed them to adequately investigate the issues of interest to them.

Moreover, pursuant to Application Criteria 3.C.5. of the Corporate Governance Code, in the framework of the tasks attributed to it by law the Board of Statutory Auditors has verified the correct application of the assessment criteria and procedures adopted by the Board to evaluate the independence of its members and disclose the outcome of the verification to the market in the Corporate Governance Report.

With regard to the recommendation of the Italian Corporate Governance Committee according to which boards of directors are invited to define ahead of time the quantitative and qualitative criteria to be adopted for the assessment of significance that should concern the overall position of the director whose independence is being evaluated, considering that the current Board of Directors will end its term of office with the shareholders' meeting called to approve the financial statements for the year ended 31 December 2019, the Company considers it reasonable to give the new board of directors the opportunity to identify specific quantitative and/or qualitative criteria to be used to assess the significance of the relationships that could be identified for the correct application of the independence criteria.

4.7 LEAD INDEPENDENT DIRECTOR

On 9 March 2020 the Board of Directors verified that, as in the previous years, the conditions for the institution of a lead independent director do not exist, considering that the current Chairman of the Board of Directors does not hold the role of the main subject responsible for the company (chief executive officer), and does not hold a controlling stake in the Company.

5. CORPORATE INFORMATION PROCESSING

As proposed by the Managing Director, the Acea Board of Directors adopted Regulations for internal governance and for the external disclosure of the Company's documents and inside information that:

- establish the methods for the processing and disclosure of Company information within the Group;
- rule that Company representatives who gain knowledge of information of which the early disclosure could be prejudicial to the Company's equity and/or that of the Shareholders must treat the same with maximum reserve, and that the Company, in the case of specific circumstances, must give immediate and full information to the market;
- prescribes that a procedure must be established for the drafting of press releases relating to price sensitive information, to prevent possible distortions or irregularities in the communication of such information.

Pursuant to art. 18, para. 1, lett. a) of Regulation (EU) no. 596/2014 (MAR), of a List of persons with access to Inside Information.

The list is divided into:

- a "Permanent Section", where the persons who have access to all Inside Information are registered;
- a Section for each Inside Information, where the persons who have access to the specific Inside Information are registered, if the Delay Procedure is activated.

Art. 7 of the MAR regulation establishes that "*by Inside Information is meant information of a precise nature, which has not been made public, directly or indirectly relating to one or more issuers or one or more*

financial instruments and, if made public could have a significant effect on the prices of those financial instruments or on related derivative financial instruments". Information shall be deemed to be of a precise nature if it "*indicates a set of circumstances which exists or which may reasonably be expected to come into existence, or an event which has occurred or which may reasonably be expected to occur, where it is specific enough to enable a conclusion to be drawn as to the possible effect of that set of circumstances or event on the prices of the financial instruments or the related derivative financial instrument [...]. In this respect in the case of a protracted process that is intended to bring about, or that results in, particular circumstances or a particular event, those future circumstances or that future event, and also the intermediate steps of that process which are connected with bringing about or resulting in those future circumstances or that future event, may be deemed to be precise information*".

Rules have also been adopted on Internal Dealing in compliance of the provisions of art. 19 of the MAR which rules that transactions in financial instruments carried out by "relevant subjects" and by persons closely linked to the same must be communicated to Acea and to CONSOB immediately and, in any case, within three working days from the transaction, at the request of the Relevant Subjects.

Relevant subjects and persons closely linked to them must notify the Company, in compliance with the aforementioned provision, of all transactions carried out on their behalf once the aggregate amount of such transactions reaches the threshold of € 20,000 over one calendar year.

6. THE BOARD'S INTERNAL COMMITTEES (as per art. 123 bis, para. 2, lett. d, TUF)

The Board of Directors has set up three internal committees, namely: the Appointments and Remuneration Committee, the Control and Risk Committee and the Ethics and Sustainability Committee.

Thus, the powers and duties relating to appointments and remuneration are aggregated and vested on a single committee. This aggregation, in line with the recommendations of the Self-Governance Code, respects the composition requirements contemplated by said Code for both the Committees and ensures correct execution of the relative powers and duties.

Said committees are composed of at least three non-executive directors appointed by the Board of Directors itself, which appoints one of the independent directors as the Chairman of the committee. The composition, duties and functioning of the Committees are disciplined by the Board of Directors, in specific regulations, consistent with the criteria laid down by the Self-Governance Code.

In particular, pursuant to the Control and Risks Committee regulations, updated in December 2017, said Committee must be formed of at least three non-executive directors, the majority of whom must also be independent directors. The committee Chairman is chosen from the independent directors. At least one member of the committee must hold adequate experience in accounting, finance and risk management, which the Board of Directors assesses at the moment of the appointment.

Pursuant to the Appointments and remuneration Committee regulations, updated in March 2018, said Committee must be formed of at least three non-executive directors, the majority of whom must also be independent directors. The committee Chairman is chosen from the independent directors. At least one member of the committee must hold adequate experience in finance and remuneration policies, which the Board of Directors assesses at the moment of the appointment.

The rules of the Ethics and Sustainability Committee, updated in December 2017, said that the committee must be formed of at least three non-executive directors, the majority of whom must also be independent directors. The committee Chairman is chosen from the independent directors. At least one member of the committee has adequate experience in environmental matters and/or corporate social responsibility, this is assessed by the Board of Directors upon appointment.

In the performance of their duties, said committees have access to Company information and activities, necessary for performing their respective duties, and the assistance of the Company's departments according to their sphere of competence; they may also

avail of external consultants at the Company's expense, within the limits of the annual budget approved for each Committee by the Board of Directors.

The consultants for the Nominations and Remuneration Committee and for the Control and Risks Committee must be chosen avoiding possible conflicts of interests and the conferment of mandates on subjects that provide services to companies of significance such as to compromise in practice the independent judgement of said consultants. The Chairman of the Board of Statutory Auditors or another statutory auditor designated by him/her participates in the meetings of the Control and Risk Committee and the Appointments and Remuneration Committee (and in any case the other current statutory auditors are also entitled to intervene).

The meetings of each committee may be attended by other members of the Board of Directors or by representatives of company departments or third parties whose presence may be of assistance in the best performance of the committee's functions, upon the specific invitation of the respective chairman.

In particular, the Director in charge of the internal control and risk management system and the Chairman of the Board of Directors may attend the meetings of the Control and Risk Committee.

The meetings of the Appointments and remuneration Committee may be attended by the Managing Director and, by invitation of such committee, also other subjects in reference to the single items on the agenda, to give information or to express assessments of their competence. As a rule, the Human Resources Manager is invited to attend, whereas the director or manager whose position the Committee is examining may not attend.

The Managing Director and the Chairman of the Board of Directors may attend meetings of the Ethics and Sustainability Committee. The Chairman of the Board of Statutory Auditors, the other standing auditors and other members of the Board of Directors may also participate at the invitation of the Chairman of the committee.

The Board of Directors also formed a Related-Party Transactions Committee (OPC), as a body assigned to carry out the role required by the Consob Related Parties Regulation and based on the provisions of the "Related-Party Transactions Procedure" adopted by the Company and briefly described in section 11 of this Report.

The OPC Committee, formed of at least three Independent Directors, is vested with duties and powers to make inquiries, to submit proposals and to provide advice for assessing and deciding on transactions with Related Parties, of both minor and major relevance.

7. APPOINTMENTS AND REMUNERATION COMMITTEE

On 31 December 2019, the Appointments and Remuneration Committee was created, composed of four non-executive directors, three of whom are independent, namely: Liliana Godino (Chairman), Massimiliano Capece Minutolo Del Sasso, Gabriella Chiellino and Giovanni Giani.

The Board of Directors recognised that Giovanni Giani holds the requisite of adequate knowledge and experience in accounting and financial matters and retributive policies.

The Committee's secretariat duties are performed by the Board of Director's secretary or by another subject chosen by the Committee itself.

The Committee held 10 meetings in 2019, duly recorded in minutes and regularly attended by all the members as well as the members of the Board of Statutory Auditors, with an average duration of approximately 1 hour 5 minutes each.

With respect to the tasks assigned, the Appointments and Remuneration Committee offers proposals and consulting. In particular, it is set up to assist the Board of Directors in assessments and decisions relating to its composition and to remuneration policies regarding the Managing Director, the Directors who hold particular offices and the managers with strategic responsibilities.

It should be noted that the powers relating to appointments and remuneration are merged into a single committee, in line with the express provisions of the Corporate Governance Code, in compliance with the rules relating to the composition of each committee, so as to ensure the correct use of the relative powers in an effective and efficient manner. Specifically:

1. it proposes to the Board of Directors the policy for the remuneration of directors and managers with strategic responsibilities, promoting sustainability in the medium-long term;
2. it periodically assesses the adequacy, the overall congruence and the concrete application of the remuneration policy relating to directors and key managers, on the basis of information provided by the Managing Director, and it presents proposals regarding said remuneration to the Board of Directors;
3. in case of co-optation, it proposes candidates for the office of director to the Board of Directors if it is necessary to replace independent directors;
4. it presents proposals to the Board of Directors on the fees of the executive directors and the other directors that hold special offices, and on the performance targets linked to the variable part of said fees;
5. it monitors the application of the decisions adopted by the Board, checking, in particular, on the effective achievement of the performance targets;
6. it submits the remuneration report to the Board pursuant to art. 123-ter of the TUF that the directors must present to the annual meeting;
7. it expresses opinions to the Board on the size and composition of the Board and makes recommendations on the managerial and professional figures whose presence is deemed appropriate;
8. it makes recommendations to the Board regarding the maximum number of appointments to the boards of directors or control bodies of other companies listed on regulated markets, financial, banking, insurance companies, or in any case companies of significant size that can be considered compatible with the effective performance of the office of Company Director, taking into account the participation of directors in committees established within the Board;

9. it expresses preventive and non-binding opinions on the figures to be qualified as having strategic responsibilities, as well as those to be eventually involved in the Long Term Incentive Plan ("LTIP");
10. for the purposes of expressing its preventive and non-binding opinions, it gathers the preliminary investigations according to the choice of the executives with strategic responsibilities as well as those relating to the appointments of the Directors and Auditors in significant companies.

The directors must refrain from participating in Committee meetings when the Committee discusses proposals to be submitted to the Board of Directors relating to their own fees.

The Committee may have access to the information necessary for the performance of its duties, also from the Company's departments, and it may also take avail of external advisors.

With regard to remuneration, during 2019 among other things the Committee:

- launched a structural review of the overall remuneration package awarded to the Managing Director and Executives with strategic responsibilities so as to bring it into line with market practices, submitting it to the Board of Directors for approval;
- submitted the remuneration report to the Board of Directors for approval pursuant to art. 123-ter of Legislative Decree no. 58 of 24 February 1998, and in particular the section relating to the remuneration policy for directors and managers with strategic responsibilities for the year 2019;
- acknowledged that the economic-financial targets had been reached and authorised the payment of the *MBO 2018* (Management by Objectives) short-term variable incentive programme to the entitled parties;
- submitted a proposal to the Board of Directors regarding the setting of performance targets related to the short-term variable component "*MBO 2019*".

As far as its responsibilities concerning appointments and opinions relating to the identification of figures qualified as managers with strategic responsibilities and the position of director pursuant to art. 2386, first paragraph of the Italian Civil Code:

- it examined and expressed its opinion on the proposals to be submitted to the Board of Directors concerning the candidates designated to become members of the administrative body and the boards of statutory auditors of the group's significant companies;
- following the resignation of Director Rossignol, it proposed to the Board of Directors the candidate for the office of director (art. 2386, first paragraph of the Italian Civil Code), ensuring compliance with the provisions of law and the articles of association, as well as those on the minimum number of independent directors and the quotas reserved for the least represented gender;
- it noted the presentation of a new model of reference for the definition of succession planning for the key positions identified within the Company and the project aimed at defining career paths.

In 2020, as at the date of this Report, the committee has met 3 times, with an average duration of 1 hour and 10 minutes each.

The Board of Directors has confirmed the allocation of an annual budget for 2020 of € 25,000.00 (fifty thousand point zero zero) for the Committee so as to allow the latter, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

8. DIRECTORS' REMUNERATION

The remuneration policy for Directors and Key Managers ("Remuneration Policy"), defined by the Board of Directors, is detailed in the document "Report on remuneration policy and compensation paid" ("Remuneration Report"), approved by the Board of Directors in the meeting of 9 March 2020, pursuant to art. 123-ter of the TUF, to which we invite you to refer for in-depth information. Said document will also be available at the Internet site www.gruppo.acea.it and it will be subjected to a vote of the meeting of the Board of Directors, acting in an advisory role, which will be held for the approval of the financial statements relating to financial year 2019.

During the Shareholders' Meeting of 27 April 2017, the all-inclusive fixed gross annual fee was confirmed for the members of the BoD. Already in 2016 the Shareholders' Meeting resolved to defer the faculty to define the considerations pursuant to art. 2389, paragraph 3 of the Civil Code to the Board of Directors, regarding Directors vested with special offices with reference, relating to the economic conditions, to the fees recognised in listed companies of similar sector and dimensions (see *Remuneration Report 2020 – Financial Year 2019, Section 1*).

Said Remuneration Policy – the current remuneration system of which is detailed in the "Remuneration Report" – defines the guidelines that are consistent with the topics listed below:

- an important part of the remuneration of the Company's Executive Directors and key managers, as expressly required by the Self-Governance Code, is linked to the economic results achieved by the Company and, possibly, to the achievement of specific performance targets – pre-set and measurable – indicated in advance by the Board of Directors itself, as detailed in Section 1 of the "Remuneration Report";
- a system of medium-long term variable incentives (Long Term Incentive Plan) is contemplated, to be vested in three years. The aim of this plan lies in encouraging the management to pursue the Group's economic-financial results in the interests of the shareholders;
- as of 2015, in line with a growing need for transparency expressed by the Self-Governance Code and in view of an increasingly responsible remuneration policy, the claw back clause, already adopted for executives and key managers, has been extended also to the managerial roles which have greater impact on the Group's business. According to this clause, the Company is entitled to request the return of the variable remuneration (relating to both the short and the medium-long term periods) if it is found to have been paid in the case of results obtained consequent to intentional misconduct and/or gross negligence, such as the intentional alteration of the data used to indicate the achievement of the targets or obtaining the same results by behaviour contrary to corporate or legal provisions.

It should be noted that during the year, following Italian Legislative Decree 49/19 concerning the encouragement of a long-term commitment by shareholders, the Company launched an in-depth study on the link between remuneration and sustainability. The aim of the project is to understand the ways in which ESG issues are being addressed within companies in terms of governance and remuneration policies, by analysing the best practices that are being implemented in particular in the energy utilities sector and the guidelines of proxy advisors and institutional investors. This in order to identify any solutions that might allow Acea to express a better link between the remuneration policy adopted and the sustainability strategy outlined by the company.

REMUNERATION OF EXECUTIVE DIRECTORS AND KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

For details of the fees of the Chairperson and the Managing Director, as well as the key managers, please refer to Section II of the 2020 Report on remuneration policy and compensation paid, Year 2019 – Section II pursuant to art. 123-ter of the TUF.

INCENTIVE MECHANISMS FOR THE INTERNAL AUDIT DEPARTMENT MANAGER AND THE FINANCIAL REPORTING OFFICER

The short-term incentive mechanisms of the head of Internal Audit and the financial reporting officer are subject to an annual assessment.

Their goals sheet consists of Group and individual objectives consistent with the tasks assigned to them.

With regard to the figure of the financial reporting officer, he or she is also the recipient of a Long Term Incentive Plan.

For further information on this topic, please refer to the Remuneration Report prepared pursuant to art. 123-ter TUF and published within the terms of the law.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The remuneration of non-executive directors is not linked to the economic results achieved by the Company, but to the commitment requested of them and their possible membership of one or more committees. No share incentive plans involve non-executive directors.

With the assistance of the competent Nomination and Remuneration Committee, as early as 2018 the Board of Directors undertook a process of analysis aimed at aligning the remuneration paid to corporate bodies with market best practices.

In light of the information acquired over time with the support of the relevant internal functions and expert consultants, it has emerged that the total remuneration paid to the members of the Board of Directors is not adequate when considering the professionalism, expertise and commitment required (given the limited number of members of the Board and the large number of its meetings, as well as the volume of activities actually carried out by the board committees) as well as being in any case below the median of comparable companies.

The Company will continue to monitor the most widespread market practices, including using compensation surveys and market analyses conducted by leading operators in the sector, with a view to aligning its policy with these practices. To this end, it may be considered to extend the analyses to foreign experiences where comparable.

The outcome of these activities makes it possible for the relevant bodies to submit to the shareholders policies and guidelines for the remuneration of the corporate bodies that are consistent with the professionalism, expertise and commitment required, especially as regards the non-executive and independent member of the board of directors.

INDEMNITY FOR DIRECTORS IN THE CASE OF REVOCATION, RESIGNATION, DISMISSAL OR DISCONTINUED OFFICE SUBSEQUENT TO A TAKEOVER BID (art. 123 bis, para. 1, lett. i, TUF)

No agreements have been stipulated between Acea and the di-

rectors in office which contemplate non-competition agreements or indemnity in the case of their dismissal or resignation/revocation without just cause.

9. AUDIT AND RISK COMMITTEE

The Control and Risks Committee was established to assist the Board of Directors, ensuring the latter adequate preliminary investigation and support in the assessments and the decisions related to the Control System, as well as related to the approval of the periodic financial disclosures and declaration of a non-financial nature.

The Committee members and the Chairperson are appointed by the Board of Directors.

The term of office of the Committee members coincides with that of the Board of Directors that has appointed them.

The Committee may request the Internal Audit function to carry out audits on specific operational areas, simultaneously informing the Chairman of the Board of Auditors, the Chairperson of the Board of Directors and the Control System Director, unless the verifications specifically concern the activity of said subjects.

The Committee carries out its inquiries and issues opinions to the Board of Directors regarding:

1. the definition of the Guidelines for the Control System, so that the main risks to which Acea SpA and its subsidiaries – including the various risks which may become significant with a view to medium-long term sustainability – are correctly identified, and adequately measured, managed and monitored;
2. the determination of the degree of compatibility of the main risks with a management consistent with the strategic objectives identified;
3. the assessment, at least once a year, of the adequacy of the Control System in respect of the Company's characteristics and the risk profile assumed, as well as the effectiveness of the said system;
4. the approval, at least once a year, of the work plan drawn up by the Internal Audit function manager;
5. a description, within the annual report on corporate governance, of the main features of internal control and risk management system and coordination processes regarding the persons involved therein, expressing its opinion on the overall adequacy of the same;
6. the assessment, having consulted with the Board of Auditors, of the results explained by the statutory audit in a letter of suggestions, where applicable, and in the report on fundamental issues that have come to light during the audit of the accounts;
7. the proposals of the internal control and risks system Director, formulated in accordance with the Board of Directors' Chairman, and after hearing the Board of Statutory Auditors' opinion, regarding the appointment and revocation of the Internal Audit function manager and the definition of the latter's salary consistent with the Company's policies, as well as the adequacy of the resources allocated to the Department for the performance of its duties. Such opinion will be binding.

The Committee also assists the Board of Directors by:

- assessing, together with the Financial Reporting Officer and after consultation with the external auditor and the Board of Auditors, the correct use of the accounting principles and their uniformity for the purposes of drafting the consolidated Financial Statements;
- assessing, together with the competent Acea function, having consulted with the statutory auditor and Board of Auditors, the correct use of accounting standards implemented in order to draw up the declaration of a non-financial nature as per Legislative Decree 254/2016;
- supporting, with adequate investigative activity, the assessments and decisions of the Board of Directors related to ma-

naging risks deriving from prejudicial facts of which the Board of Directors has become aware;

- providing the Board of Directors with opinions on specific aspects involved in the identification of the Company's main risks;
- examining the periodic reports on the assessment of the Internal Control and Risk Management System, and those of particular importance drawn up by the Internal Audit function;
- monitoring the autonomy, adequacy, effectiveness and efficiency of the Internal Audit function;
- requesting, as may be the case, the Internal Audit function to carry out audits in specific operational areas, contextually notifying the Chairman of the Board of Auditors, Chairman of the Board of Directors and the Director assigned to the internal control and risk management system thereof, with the exception of cases in which the subject matter of the audit request specifically concerns the activity of such subjects.

The Committee reports to the Board, at least every six months, during the annual and half-yearly financial report, about the activity performed as well as the adequacy of the internal control and risk management system and, at least once a year, assesses its own size, composition, function and independence with respect to the assigned duties.

On 31 December 2019, the Committee was formed of four directors, specifically: Liliana Godino (Chairman), Michaela Castelli, Massimiliano Capece Minutolo Del Sasso and Giovanni Giani.

The Director Michaela Castelli has experience in accounting and financial matters and was deemed suitable by the Board of Directors at the moment of her appointment.

In 2019, the Committee held 11 meetings of an average duration of approximately 1 hour and 50 minutes each, characterised by the regular attendance of all its members and the Chairman of the Board of Auditors or another auditor.

The meetings, which were regularly recorded in minutes, were also attended by other subjects, invited by the Committee, for the illustration of single points on the agenda.

The Chairman provides the Board of Directors with periodic information on the Committee's operation/activities.

In 2019 the Committee performed the tasks reserved to the same by the Self-Governance Code, and in particular:

- it assisted, carrying out the necessary enquiries, the Board of Directors in its decisions and assessments related to the control system, and those related to the approval of the periodic financial reports;
- it examined the process of drafting the NFS for the 2019 financial year and the progress of assurance activities on the same document by the auditing firm PricewaterhouseCoopers;
- together with the relevant company functions, it started the process of monitoring and sharing the various intermediate stages of the path to defining the NFS for 2019. As part of this process, it was informed of the elements involved in the materiality process, the methods for carrying out the relevant analysis over time and the terms of the new cycle of materiality analysis for 2019;
- together with the Financial Reporting Officer and having consulted with the statutory auditor and the Board of Auditors, it assessed the correct use of the accounting standards and their uniformity for the purposes of drafting the consolidated financial statements;
- it expressed a favourable opinion on the Internal Audit functions' activities Plan prior to its presentation to the Board of Directors for approval;

- it examined the periodic reports of the Internal Audit function concerning the progress of the Audit Plan, the results of the individual audits, the state of implementation of the improvement actions put in place by management with respect to the findings (monitoring and follow-up) and the assessments of the suitability of the SCIGR issued by the Head of the Internal Audit function;
- it monitored the autonomy, adequacy, effectiveness and efficiency of the Internal Audit function;
- it examined and assessed the Reports prepared by the Financial Reporting Officer regarding the adequacy of the powers and means assigned to the Financial Reporting Officer and the effective compliance with administrative and accounting procedures;
- it reported to the Board of Directors, at least once every six months, upon approval of the annual financial statements and of the interim financial report, on the activity carried out and on the adequacy of the internal control and risk management system.

The Committee had access to the information and to the Company departments necessary for the performance of its duties. In 2020, as at the date of this Report, the Committee has met 3 times, with an average meeting duration of 1 hour 45 minutes. The Board of Directors has confirmed the allocation of an annual budget for 2020 of € 25,000.00 (fifty thousand point zero zero) for the Committee so as to allow the latter, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

10. ETHICS AND SUSTAINABILITY COMMITTEE

The Committee is a panel body having full and autonomous powers of action and control designated with providing propositional and advisory support to the Board of Directors within the context of corporate ethics and environmental, social and governance topics (ESG - Environmental, Social and Governance).

The composition and operation of the Committee are disciplined by specific regulations approved by the Board of Directors.

The Committee consists of three non-executive directors of Acea, the majority of whom are independent, namely Gabriella Chiellino (Chairman), Michaela Castelli and Giovanni Giani.

As required by the aforementioned regulation, Ms. Chiellino has adequate experience in environmental matters and/or corporate social responsibility, assessed by the Board of Directors upon appointment.

The Committee has the duty to assist the Board of Directors with investigative functions of a propositional and advisory nature, in the appraisals and decisions related to ethics and sustainability.

So as to fulfil its responsibilities, it carries out the following duties:

- a. promote the integration of sustainability in the strategies and culture of the company and favours its circulation among employees, shareholders, users, clients, the territory and all the stakeholders in general;
- b. supervise sustainability issues, also with regard to the reporting areas envisaged by Legislative Decree no. 254/2016, associated to exercising corporate activities and the dynamics of interaction of the latter with all the stakeholders and examines the main corporate rules and procedures proving to be of relevance upon comparison;
- c. examine the guidelines of the sustainability plan and the procedures for implementing them;
- d. monitor the implementation of sustainability plan approved by the Board of Directors;
- e. examine the no profit strategies of the company;
- f. monitor, regarding matters of competence, the adequacy of the Code of Ethics and its effective implementation;
- g. express, by request of the Board of Directors, opinions on other matters regarding sustainability;
- h. report to the Board of Directors, at least on a half-yearly basis and no later than the term for approving the annual or interim financial report, about the activity carried out;
- i. liaise with the pertinent corporate structures and bodies in relation to aspects of ethics and sustainability.

In 2019, the Ethics and Sustainability Committee:

- was informed of the projects launched by the relevant internal

function aimed at promoting the integration of sustainability in the company's strategies and culture and at promoting its dissemination to employees;

- monitored initiatives to promote sustainability in the supply chain and procurement procedures;
- updated the teleworking programme initiated by the Company, which aims to promote the well-being of employees through a better work-life balance and the centrality of the person;
- followed the review process of the 2018-2022 Sustainability Plan;
- to the extent of its responsibility, examined and shared the process that led to the definition and identification of the corporate scope for the non-financial consolidated statement for the financial year 2019;
- examined and expressed its support for the adoption by the relevant corporate functions of a series of procedures relating in various forms to the process of preparing the non-financial consolidated statement;
- followed the "Acea2019 Materiality Analysis" process aimed at identifying the economic, governance, social and environmental issues related to the Group's businesses that are most relevant for the company and its stakeholders. The Committee's attention to this issue is based on the importance of identifying material issues for the definition of sustainability planning and the identification of non-financial reporting content;
- carried out an in-depth analysis of the issue of diversity in the board of directors and control bodies in order to see how the issue of board diversity is handled, not only in terms of gender, but also as part of a broader process aimed at considering diversity within the corporate culture and in managerial choices and conduct;
- launched an in-depth study on the link between remuneration and sustainability following the entry into force of Italian Legislative Decree 49/2019 implementing EU Directive 2017/828 on encouraging long-term shareholder commitment.

During the period, the Ethics and Sustainability Committee held 8 meetings, with an average duration of 1 hour 25 minutes, mostly attended by its members.

In 2020, as at the date of this Report, the Committee has met 3 times, with an average meeting duration of 1 hour 45 minutes.

The Board of Directors confirmed the allocation of an annual budget for 2020 of € 25,000.00 (twenty-five thousand point zero zero) for the Committee.

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Acea's Internal Control and Risk Management System, an essential element of the Group's Corporate Governance system, consists of all the people, tools, organisational structures, rules and regulations aimed at enabling the Acea Group to be managed soundly, correctly and consistently with corporate objectives, through an adequate process of identification, measurement, management and monitoring of the main risks, the structuring of adequate information flows to ensure the circulation of information and the coordination of the various players in the Control System.

This system is constantly reviewed and updated through specific projects aimed at increasing its integration into the more general organisational and corporate governance structures adopted by Acea, aligning it with the recommendations of the Corporate Governance Code and the best national and international practices. The definition of an adequate SCIGR contributes to a healthy, legitimate and consistent management of the company through the making of informed decisions compatible with the risk appetite defined by the Board of Directors, and helps to ensure the protection of the company's assets, the efficiency and effectiveness of processes, the reliability of the information provided to corporate bodies and the market and compliance with laws, regulations, the Articles of Association, the Code of Ethics and internal procedures, thus constituting a fundamental prerequisite for assessing the adequacy of the Company's general organisational, administrative and accounting structure.

In January 2020, the Board of Directors updated the "Guidelines for the Internal Control and Risk Management System" with the following objectives:

- provide guidelines for the various subjects in the SCIGR, so as to ensure that the main risks pertaining to the Acea Group are correctly identified as well as adequately measured, managed and monitored;
- identify the principles and responsibilities of the governance, management and monitoring of the risks connected to the Company's activities;
- provide for activities of control at all operational levels and clearly identify tasks and responsibilities in order to avoid any duplicated activities and ensure coordination between the main subjects involved in the SCIGR;
- define the architecture of the Control System adopted by the Group, and in particular outline the stages that make up the definition process;
- define specific information flows among the various actors of the Control System, through the preparation of a matrix that identifies actors, objectives, frequency and description of the flow as well as the recipients or other actors who are informed based on their role in the SCIGR.

Updating the guidelines of the Internal Control and Risk Management System is one of the fundamental elements for the definition of the Acea Group's control model aimed at strengthening and consolidating the culture of control and risk management.

a) Roles and responsibilities in the Internal Control and Risk Management System

The governance and implementation of the complete SCIGR involves actors with diverse roles within the Company (governance and control bodies, Company departments, management, em-

ployees). In line with the recommendations of the Corporate Governance Code and the best practices of reference, the Guidelines describe the roles and responsibilities of these actors. For a description of the roles and duties of the main actors, we invite you to refer to the specific paragraphs of this Report (Board of Directors, Internal Committees within the Board, the Managing Director, the Internal Audit function, Risk & Compliance function manager, the Financial Reporting Officer and the Supervisory Body).

Beyond the tasks or responsibilities specifically identified for these actors, the management, the employees and all the people working for Acea, each for their own area responsibility, must contribute to the adequacy and effective operation of the SCIGR. To this end, with the support of specific training, Acea strives to ensure that the management, employees and all people working in the company acquire, each according to their role, all the skills and professionalism necessary to allow an effective operation of the SCIGR.

b) Risk identification, assessment and management

Given the nature of its business, the Acea Group is exposed to various types of risks, therefore to manage these risks, analyses and monitoring are carried out by each company as part of a structured and coordinated process implemented at a Group level through the integration of two complementary approaches (ERM and Continuous Risk Management), aimed at assessing and treating the risks of the entire organisation in an integrated logic, consistent with its risk appetite, with the aim of providing management with the information needed to make the most appropriate decisions to achieve strategic and business objectives, to safeguard, grow and create value for the company.

This combination is designed to ensure effective control of the entire universe of main risks the Group is potentially exposed to, guaranteeing management of the Group's overall exposure in line with the objectives of the Business Plan and Sustainability.

The identification and assessment of risks are the responsibility of Group management, based on the guidelines and procedures defined. These activities are carried out in order to ensure an adequate definition of appropriate responses aimed at enabling the mitigation and monitoring of risks. The Risk & Compliance function and other second-level control functions for specialised risks provide support throughout the entire risk identification, assessment and management process.

The control activities are wholly or partially integrated into the operations, involve all organisational levels and include a set of various operations, like approvals, authorisations, checks, comparisons, review of operational performance, controls of information systems, controls to safeguard company assets, separation of duties, etc. Responsibility for the controls is divided into three complementary levels:

- the first level of control is aimed at ensuring the proper conduct of business processes through the identification, assessment, management and monitoring of risks, for which it implements appropriate mitigation actions. The responsibility for their execution is generally assigned to the line structures;
- the second level of control is aimed at controlling specific company risks as well as verifying the adequacy and effective operation of the controls in place to manage the main risks. Furthermore, it provides support to the first level of control in defining and implementing mitigation actions for the main risks;

- the third level of control is entrusted to the Internal Audit function and provides independent and objective verification of the adequacy of the design and the effective operation of the SCIGR as a whole.

The activities of the Internal Audit function are regulated by the Board of Directors through the Audit Charter, which defines its purpose, remit, authority, responsibilities and other relevant provisions.

In particular, the Internal Audit function manager is responsible for verifying that the Control System is always adequate, fully operational and functioning. He reports to the Board of Directors, he is not responsible for any operational activities and he can have direct access to all information useful for the performance of his duties. He reports on his work to the Chairman, the Managing Director, the Control and Risks Committee and the Board of Auditors on the operation, adequacy and effectiveness of the Control System. The Internal Audit function operates on the basis of an Audit Plan, developed on the basis of a structured process of analysis and prioritisation of the main risks, which takes into account the results deriving from the monitoring performed by the company departments responsible for second level controls and any proposals received from Acea Functions/Departments/Industrial Segments, as well as any requests from the Control and Risks Committee, the Board of Statutory Auditors and the Supervisory Body.

The Audit Plan is approved annually by the Board of Directors, subject to the favourable opinion of the Control and Risk Committee and after having consulted the Board of Statutory Auditors and the Director in charge of the SCIGR.

c) Qualifying elements of the Control System

Internal control environment

The foundations of Acea's SCIGR consist of a set of different elements, consistent with each other, which contribute in an integrated manner to establishing the environment Acea's people operate in, directing their activities within their assigned responsibilities and encouraging the taking of conscious decisions aimed at achieving corporate objectives.

Constituent elements of the internal control environment include: the adoption of ethical principles and standards of conduct; the adoption of regulatory instruments; the dissemination of a risk management culture in support of growth; a system of delegations and powers and the development of the skills of people working in Acea.

Second-level company control functions for particular risk categories

The Director in charge of the SCIGR has identified some corporate functions – including some that are not exclusively dedicated – which he/she uses to identify, measure, manage and monitor specific types of risk connected with the Group's operations.

These centralised controls are the manner by which a transversal view of the risks and of the connected systems of control between the diverse processes within the Group is possible.

The company structures and the relative risk management models through guidance and/or monitoring activities are summarised below:

Compliance: Antitrust and Unfair Business Practices Model; 231 Risk Assessment;

DPO: Group Privacy Governance Model;

Enterprise Risk Management: analysis of the evolution of the Group's overall risk profile, development of a mitigation strategy and monitoring of its implementation;

Integrated Certification Systems: Integrated Environment and Safety Management Systems;

Financial Reporting Officer: 262 Model.

d) Overall assessment of the adequacy of the Control System

See the contents of paragraph 4.3 of the Board of Directors.

MAIN FEATURES OF THE EXISTING INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS (art. 123 bis, para. 2, lett. b, TUF).

Introduction

In the Internal Control system, with reference to financial reporting, particular relevance is held by the "Group's Management and Control Model pursuant to Law 262" (the "Model"), adopted on the occasion of the updating of the Group's Internal Control System to the requirements of Law 262/2005. In particular, in 2007 Acea began a process of adaptation to the needs expressed by Law 262/2005 aimed at planning an effective system of Internal Control over Financial Reporting ("ICFR"), subject to constant improvement and adaptation to the Company's evolution, which can allow the Acea Financial Reporting Officer and Managing Director to issue the certifications required by art. 154 bis of the TUF.

The system is defined as all the activities for identifying the risks/controls and for defining specific procedures and tools adopted by Acea to ensure, with reasonable certainty, the achievement of the aims of the credibility, accuracy, reliability and immediacy of the financial information.

The Model defines the guidelines, the methodological references and the responsibilities for the institution, assessment and maintenance of the ICFR.

The Model is developed on the basis of the fact that the ICFR must be a part of the broader Control System and an essential element of Acea's Corporate Governance, and that the credibility of the information disclosed to the market on the Company's situation and results is a fundamental element for all the stakeholders.

On 15 May 2019, the Board of Directors approved the new "Management and Control Model of the Acea Group pursuant to Italian Law no. 262/05", which consists of documentation that defines the founding aspects of the system. In detail:

- regulation of the Financial Reporting Manager: defines the position of the Financial Reporting Manager and regulates his or her activities in accordance with the Articles of Association and applicable laws, as well as regulating his or her relations with internal and external stakeholders;
- periodic internal reporting of the Acea Group (Annex 1 to the Regulation of the Financial Reporting Manager): regulates the internal information flows within the Acea Group (internal chain of declarations) that allow the Acea Financial Reporting Manager and Managing Director to issue the declarations referred to in art. 154 bis of the TUF. The document includes the new Letter of Internal Declarations structure;
- Acea Group Management and Control Model pursuant to Italian Law 262/05: defines the guiding principles and methodological approach for the establishment, assessment and maintenance of the Control System that oversees the preparation of the financial statements and illustrates the main components of the 262 Framework adopted by the Acea Group.

In addition to the three documents mentioned above which constitute the 262 Model, the Internal Control System for Financial Reporting is also regulated by the following documents:

- Group Accounting Standards Manual,
- Guide to the closing of the consolidated financial statements,
- Checklist for the collection and processing of accounting data at the end of the period.

The implementation of the internal control and risk management system in relation to the Group's financial reporting has been carried out, also through successive adjustments, also considering the guidelines provided by certain category bodies regarding the Financial Reporting Officer's activities, in particular:

- Position Paper of the Andaf [National Association of Ad-

ministrative and Financial Directors] “Il Dirigente Preposto alla redazione dei documenti contabili societari” [The Financial Reporting Officer];

- Position Paper of the AIIA [Italian Internal Auditors’ Association] “Il contributo dell’Internal Auditing nella realizzazione di un buon processo di Corporate Governance e nell’organizzazione di un flusso informativo con il Dirigente Preposto alla redazione dei documenti contabili e societari” [The contribution of Internal Auditing in the creation of a good Corporate Governance process and in the organisation of an information flow with the Financial Reporting Officer];
- Guidelines issued by Confindustria “Linee guida per lo svolgimento delle attività del dirigente preposto alla redazione dei documenti contabili societari ai sensi dell’art. 154 bis TUF” [Guidelines for the performance of the Financial Reporting Officer’s activities pursuant to art. 154 bis of the TUF].

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

The Model defines the guidelines of reference for creating and managing the system of administrative and accounting procedures (so-called activity/risk/control matrices) for Acea and its major consolidated companies for the purposes of corporate Financial Reporting (“major company”), regulating the main steps and responsibilities.

a) Steps

Defining the scope of analysis. Every year Acea updates the scope of analysis of the system of administrative-accounting controls and of the monitoring of the underlying processes, to guarantee that the risks relating to the financial reporting of the more significant accounting items within the consolidation perimeter are covered.

The scope of the analysis is initially determined by the weight of each major company of the Group on the consolidated financial statements, taking into account the relevance for the same of the associated significant accounts and administrative-accounting processes; successively, the results of the analysis are integrated by considerations of a qualitative nature to take into account both the Group’s structure and the features of specific financial statement items.

Analysis of process risks and controls. The approach adopted by Acea allows for identifying the “key” risk and control points deemed significant for the consolidated financial statements. For this purpose, the control objectives and the related risks are defined for every process and activity; i.e.

- financial statement assertion: this element must be respected in the reporting of company events in order to represent them truly and correctly on the financial statements;
- theoretic risk: risk identified at the “inherent level”, not taking into account the existence and the effective execution of specific control techniques aimed at eliminating the risk in question or at reducing it to an acceptable level;
- specific control objective: objective that must be guaranteed by the execution of the control activity.

In particular, the financial statement assertions considered in the Model are:

- *Existence and occurrence* (the company’s assets and liabilities must exist at a definite date and the transactions recorded must represent events that have actually taken place during a specific period);
- *Completeness* (all the transactions, assets and liabilities to be represented must be effectively included on the financial statements);

- *Rights and obligations* (the company’s assets and liabilities must represent, respectively, its rights and obligations on a specific date);
- *Assessment and reporting* (the assets and liabilities, the shareholders’ equity, the revenues and the costs must be posted on the financial statements at their correct amount, according to the generally accepted accounting standards);
- *Presentation and informing* (the financial statement items must be correctly named, classified and illustrated).

For each specific risk/objective subject to control, the so-called “key” controls are identified, which allow for identifying the existing system of controls (manual/automatic controls; prior/successive controls) in relation to each relevant process, in order to reach the objective of control and to effectively mitigate the risk.

Assessment of the controls in view of the risks identified. The assessment of the design of the controls described in the administrative and accounting procedures, aims to analyse how the single control activities are structured and defined in respect of the objective of preventing the risk of error on the financial statements. The assessment is carried out considering the goal that the control aims to achieve, namely whether the risk is mitigated (“adequate/inadequate” control).

The assessment of the design of the controls is the responsibility of the process owners, starting from the hierarchical level above the manager of the department/activity subject to the control, up to the level of the Board of Directors in the case of the companies of the Group. The assessment of the operativity of the controls identified in the administrative and accounting procedures is also subject to specific analysis by the business lines. In fact, for controls whose design is deemed adequate, their execution must then be assessed (“implemented/not implemented” control).

The operativity of the controls, ascertained by the business lines, is corroborated by independent monitoring carried out through a periodic testing plan of the FRO. The test plan is defined according to criteria of priority and rotation on the basis of which, in each period of reference, a certain sub-series of controls to be tested is selected, until achieving coverage of the main controls identified in the procedure.

The FRO implements a process for sharing and circulating the results of the test activities, so that the managements of reference can put into practice the necessary corrective action in their own structures.

Corrective Action Plan. If, on the basis of the analyses carried out by the business lines, the “key” controls are found to be absent, not documented or not carried out correctly according to the company’s procedures, the manager of the organisational unit concerned, up to the level of the delegated boards of directors for the companies of the Group, defines and implements a remedy plan with indication of the timing and responsibilities for the execution of the corrective action. The remedy plan is submitted to the FRO for the overall assessment of the system and for the coordination of the action to be taken, and it is updated six-monthly by the subjects responsible.

Overall assessment. To allow the Acea FRO and Managing Director to issue the certifications required by art. 154 bis of the TUF, a “chain” system of internal certifications has been introduced, described in more details in the following paragraph, with the aim of ensuring the adequate internal formalisation of responsibilities for the adequacy and the effective application of the administrative and accounting procedures, and for preparing and communicating the corrective action plan, when necessary, and for updating the procedures (see point b) below, Roles and Responsibilities).

The overall assessment is therefore based on a complex evaluation procedure which takes into account:

- the assessment of the design of the existing controls and the assessment of their execution, carried out by the Acea management and by the Boards of Directors of the major companies, together with the implementation of the remedy plans;
- the analysis of the test results;
- the final analysis of the areas for improvement that have come to light, with reference to their relevance on the financial statement information.

If deemed necessary, within the scope of the assessment process, the methodology adopted may include the design and execution of specific controls and verifications of areas of the financial statements. Any important shortcomings that are found are communicated to the control bodies according to the procedures laid down in the Financial Reporting Regulations.

b) Roles and Responsibilities

The Model is based on the clear internal attribution of responsibilities in the planning, assessment and maintenance over time of the ICFR, without prejudice to the responsibilities attributed by law to the FRO and to the delegated Board of Directors. For this purpose, the financial reporting (“**Reporting**”) introduced within the Acea Group is based on a “chain” system of certifications which has the aim of the adequate internal formalisation of the responsibilities for the adequacy and effective application of the administrative and accounting procedures, of monitoring the corrective action plan, when necessary, and of immediately detecting possible modifications to the controls that are the competence of the business lines and factors of change/risk that arise in the course of normal process operations, that can influence the adequacy of the ICFR.

The assessment process of the FRO and of the Managing Director, on the basis of which the certification of the financial statements is issued according to the CONSOB model, therefore entails internal certifications (reporting forms) issued by the managers of the processes that are relevant for Acea and by the delegated Boards of Directors of the major companies. In particular, Acea, by means of reporting, has disciplined roles and responsibilities, the activities to be performed by each subject involved, the calendar, instructions for filling in the reporting forms, and the methods for updating the administrative and accounting procedures.

The Model identifies the main actors of the financial reporting process, in addition to the FRO and the delegated Boards of Directors, with the relative responsibilities.

- The Control Manager is responsible towards the Sub-Process Manager for the execution and certification of the execution of the controls of his competence according to the procedures and timing laid down by the administrative and accounting procedures, and for providing the basic information input for the reporting flow.
- The Sub-Process Manager is responsible for a related series of activities necessary for achieving a specific control objective; he must carry out an overall assessment of the design and implementation of the control, in relation to the sub-process in question; he must also update and ensure the implementation of the corrective action plan.
- The 262 Administrative Contact for the major companies is the subject within the Group major companies responsible for all the activities necessary to allow the Acea FRO to issue the certification; he is responsible for consolidating all the information received from the Sub-Process Managers and for assembling the overall assessment of the design and implementation of the controls for the company in question, which he then submits to the major company’s delegated board of directors: he is also responsible for guaranteeing the information flows to and from the FRO.
- The major companies’ delegated administrative body is re-

sponsible for assessing the design and implementation of the controls of the major company and sending the internal certification to the FRO, in the defined format, together with the corrective action plan suitably endorsed, also communicating any change/risk factors that have arisen in the period of reference that could influence the adequacy of the ICFR.

Lastly, with reference to the other governing and control bodies within and outside the Group, Acea has introduced a virtuous information exchange process, to and from the FRO, structured and modulated to foster as broad an overall view as possible of the internal control system on the part of said bodies.

11.1 DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Acea Board of Directors has chosen the Managing Director as the director appointed for the institution and maintenance of an effective Control System (“**Appointed Director**”), and has conferred mandate to the same to implement the Guidelines.

In 2019, the Managing Director – with the support of the ERM unit within the Risk & Compliance function and of the information coming from the second level controls on specialised risks – identified the main business risks, taking into account the characteristics of the activities carried out by Acea and its subsidiaries, and submitted them to the Board for examination. He has put into practice the guidelines drawn up by the Board of Directors, ensuring the planning, execution and management of the Internal Control System through the relevant structures and the constant monitoring of the overall adequacy, effectiveness and efficiency.

He has also provided for the adaptation of the system to the dynamics of the operating conditions and the legislative and regulatory context.

The Appointed Director may request the Internal Audit function, notifying the Chairman of the Board of Directors, the Control and Risks Committee and the Board of Statutory Auditors of the execution of verifications on specific operating areas and on respect for the internal rules and procedures in the execution of Company operations.

The Appointed Director also immediately informs the Control and Risks Committee and the Board of Directors of problems and critical situations that arise in the performance of his activities or of which he gains knowledge.

11.2 THE AUDIT FUNCTION MANAGER

On 22 January 2019, the Board of Directors, on an Appointed Director’s proposal, with the favourable opinion of the Control and Risks Committee and after consulting the Board of Statutory Auditors, resolved on the appointment of Mr. Simone Bontempo as Manager of the Internal Audit function from 1 February 2019 and defined his salary, in accordance with the Company’s policies.

On the proposal of the director in charge of the internal control and risk management system, after receiving the favourable opinion of the Control and Risk Committee, as well as after consulting the Board of Statutory Auditors, the Board of Directors ensures that the Manager is provided with adequate resources to carry out the responsibilities assigned to him/her.

The Guidelines of the Internal Control and Risk Management System approved by the Board of Directors define the Internal Audit Function’s mission and activities, according to which this Department has a central role in the coordination of the SCIGR. The Audit function manager is required to verify the operation and adequacy of the SCIGR, by means of verifications, both continuously and in relation to specific needs, and to check on the operations and suitability of the Control System, with the support of the Managing Director in

the activities of identifying and establishing the priorities of the major risks to which Acea and its subsidiaries are exposed.

At its meeting of 6 March 2019, the Board of Directors approved the Internal Audit function's work plan and at the same time it verified the adequacy of the resources allocated to the Department for the performance of its duties.

The Internal Audit function manager in office had direct access to all useful information for the performance of his mandate, had no responsibility for operational areas, nor is he hierarchically subordinate to the managers of the operational areas and reported directly to the Board of Directors.

During the financial year the Internal Audit function, performing its duties as described, carried out the following activities:

- a. it verified, both continuously and in relation to specific needs and consistently with the international standards for professional internal auditing, the operativity and the suitability of the Control System, through the activity plan of the Internal Audit function approved by the Board of Directors;
- b. it carried out audits at the request of the Chairman of the Board of Directors in addition to those required by the approved plan;
- c. it drafted a final report on the single audit actions and requested the competent functions/companies, when necessary, to draw up action plans for overcoming the critical issues found, monitoring the implementation and reporting the results to the Control and Risks Committed and the Post Audit Committee;
- d. it constantly informed, by means of drawing up specific reports, the Chairman of the Board of Directors, the Managing Director, the Control and Risks Committee about the activities carried out and related results; it drew up reports on significant events at the request of the Chairperson of the Board of Directors and the Managing Director;
- e. within the sphere of the Audit Plan, it verified the reliability of the information systems, including those of accounting disclosure;
- f. it supported the Acea Supervisory Body and those of the subsidiaries in the audits pursuant to Legislative Decree no. 231/2001;
- g. it monitored initiatives for overcoming anomalies found in the operativity and function of the controls, also through follow up activities;
- h. following the guidelines defined in the whistleblowing procedure, it collected and handled reports received relating to cases of alleged violations involving failure to comply with the law, internal regulations and the Code of Ethics;
- i. it implemented the improvements suggested by an external consultant, who was given the task of assessing the compliance of the available resources and the methods adopted in carrying out audits of the Internal Audit function with IPPF standards (Internal Professional Practice Framework issued by the Institute of Internal Auditors);
- j. it drafted the final report in which it gives an assessment of the suitability of the Control System and sends it to the Chairmen of the Board of Directors, the Control and Risk Committee and the Board of Auditors, as well as the Appointed Director.

11.3 THE RISK & COMPLIANCE FUNCTION

After incorporating the Risk & Compliance function into the macrostructure at the end of 2017, the Board of Directors continued with the strengthening of this fundamental control for the management and management of the SCIGR.

In particular, the function has the following mission:

- guarantee the monitoring of insurance risks of company activities in order to identify and acquire the most adequate insurance coverage and to seek the most advantageous conditions for the Group, also guaranteeing the direct management of

claims within its remit and monitoring the progress as far as the Group companies are concerned;

- identify, describe and measure the main risk factors that can compromise the achievement of the Group's strategic objectives, supporting management in defining action plans to reduce the risk to a level deemed acceptable and monitor their implementation, ensuring compliance with the decisions made by the governance bodies regarding risk policies and their management;
- coordinate and develop issues relating to social and environmental sustainability, supporting Group companies in planning the actions necessary to achieve the objectives and reporting their effects annually through the Sustainability Report;
- play a preventive and proactive role in the advance assessment of the risks of non-compliance of the company's activities with pertinent "regulations" (antitrust, Legislative Decree no. 231/2001, environment, etc.), examining the effectiveness of the processes with the objective of preventing the violation of the rules and regulations (internal and external), and suggesting the most appropriate solutions in the event of misalignments;
- assess the most appropriate measures to incorporate compliance requirements into the current privacy legislation for business processes, developing proposals and actions for changes and updates to policies, procedures and security measures, and verifying the actual effective implementation of the governance policies for the risks related to the processing of personal data;
- guarantee and control the implementation of the policies regarding quality, environment, safety and energy so as to ensure that QASE certification of the interested processes;
- guarantee the definition, implementation and control of the policies on physical protection (physical business structures) of Acea's and the Group companies' assets.

11.4 ORGANISATIONAL MODEL (pursuant to Legislative Decree no. 231/2001)

With the adoption of the Organisation, Management and Control Model pursuant to Legislative Decree 231/2001, Acea has sought to comply with the provisions of the law, complying with the guiding principles of Legislative Decree no. 231/2001 ("Decree"), the Corporate Governance Code and the recommendations of the supervisory and control authorities, with the aim of strengthening the system of controls and Corporate Governance, in particular for the prevention of the predicate crimes envisaged by the Decree.

With the adoption of the MOG, Acea has set itself the following goals of a general nature:

- to achieve awareness of the activities that present a risk of offences under the Decree (risky activities) and awareness on the part of the addressees of the rules (methods and procedures) that discipline the risk activities;
- the circulation, personal acquisition and concrete affirmation of a corporate mentality based on legality, in the awareness of the Company's express disapproval of any behaviour contrary to law, the self-regulating provisions, the indications of the supervisory and control authorities and internal provisions;
- the circulation, personal acquisition and concrete affirmation of a mentality of control, which must govern the pursuit of objectives;
- implementation of a structured system of procedures and controls that reduces the risk of committing crimes referred to in the Decree and of offences in general.

With regard to the various types of offences envisaged by Italian Legislative Decree no. 231/01 and related sensitive activities, the MOG identifies the functional and instrumental company processes within the areas at risk of offences, also mentioning the general

and specific controls of the internal control system and which the recipients must consequently comply with when carrying out the activities they are responsible for.

After its first approval in May 2004 by both Acea and its subsidiaries, the MOG was continually updated following the introduction of new predicate crimes within the catalogue of offences referred to in the Decree, of the evolution of case law, as well as changes in the company's organisation.

The current MOG was updated, revised and approved by the Board of Directors of Acea SpA at its meeting of 22 January 2020.

The supervisory body ("SB") set up pursuant to art. 6, para. 1, lett. b) of Italian Legislative Decree no. 231/2001 is the body that has full and autonomous powers of initiative, action and control regarding the proper functioning, effectiveness and observation of the MOG.

The SB supervises the effectiveness and adequacy of the MOG, monitoring its state of implementation and proposing any necessary updates to the Board of Directors. It must also report to Acea's competent bodies any breaches of the MOG, ascertained or subject to pending investigations, which could lead to liability bearing on the Company.

With regard to the composition of the SB, a multi-member body is appointed by the administrative body, with two external members who are experts on internal control and corporate criminal liability, as well as an internal member represented by the Internal Audit function manager.

Acea's Board of Directors has appointed this Body, composed of 2 external members, one of whom is the Chairperson and the Head of the Internal Audit Function of Acea SpA, for the period 1 January 2018-31 December 2020. It should be noted that the MOG approved in 2020 establishes that the SB will remain in office until the approval of the financial statements in the year following the expiry of the Board of Directors that appointed it.

The Board of Directors attributes a specific annual budget to the SB of € 25,000.00 (twenty-five thousand point zero zero) in order to guarantee and establish the autonomous "power of initiative and control" which the Decree grants.

11.4.1 Code of Ethics

With the Code of Ethics, adopted by Acea as early as 2001 and modified in the current version during 2018, Acea affirms and explicates the values, principles and behavioural standards that underlie its actions and those of stakeholders.

Specifically, the Code sets out the general ethical principles that all company practices must be linked to, specifying the criteria of conduct towards each category of stakeholder and defining the mechanisms for implementing the principles and controlling the behaviour of the people who work in the Company's interest.

The Code of Ethics is a fundamental element in the control environment of Acea, which circulates the knowledge thereof among personnel, both upon recruitment and in cyclical training activities, also carried out in e-learning mode. Compliance with the Code is explicitly required of employees, suppliers and all those contributing in the Company's activity (advisors, collaborators, etc.).

By resolution of their Boards of Directors, the subsidiaries transpose the Acea Code of Ethics, which forms an integral part of the organisational and management models as per Legislative Decree 231/2001.

Among the instruments implementing the Code, Acea adopted a procedure for managing reports of presumed violations of the principles of the Code and the Organisational and Management Model (whistleblowing) which ensures confidentiality and protects the whistleblowers in good faith.

In compliance with the principles expressed in the Code of Ethics, Acea also sought to promote a culture of equal opportunities and

the management and enhancement of diversity through the adoption, as early as 2014, of a Diversity Management Charter, updated by the board resolution dated 13 December 2018. In the same session, with the approval of the Diversity Committee, the Board resolved that due to their high ethical and moral value and significance, the activities relating to the culture of equal opportunities and the promotion of diversity should fall within the remit of the Ethics and Sustainability Committee.

The Human Resources function is assigned with the responsibilities of defining, in collaboration and with the support of business and the players involved for various reasons, the guidelines and policies on the matter of People Care and Diversity & Inclusion Management and to develop initiatives aimed at valorising the differences and the contribution of each employee.

11.5 STATUTORY AUDIT COMPANY

Pursuant to art. 22 bis of the Articles of Association in force, the certified audit of the accounts is carried out by an auditing firm appointed and operating pursuant to law and pursuant to the regulations dictated for issuing companies listed on regulated markets. In particular, it verifies that the accounts have been regularly kept and that the management events have been correctly recorded in the accounts during the period, and it also verifies the Company's financial statements and the consolidated financial statements of the period. The Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2016, held on 27 April 2017 in conformity with the provisions of law, by recommendation of the Board of Statutory Auditors, conferred *PricewaterhouseCoopers SpA* the assignment of auditing the Company's financial statements and the consolidated financial statements for a term of nine financial years – specifically 2017-2025, in other words until the approval of the financial statements of the last year of the said mandate – and established the relative fees.

In the performance of its activity, the Auditing Firm had access to the company's information and data, in both documental and electronic format, its archives and assets and to those of its subsidiaries.

11.6 THE FINANCIAL REPORTING OFFICER AND THEIR OTHER CORPORATE ROLES AND FUNCTIONS

11.6.1 The Financial Reporting Officer

The figure of the Financial Reporting Officer, introduced by Law 262/05, was adopted by Acea with an amendment to the Articles of Association of 13 November 2006, which requires this figure to be appointed by the Board of Directors.

In its meeting of 3 August 2017, the Board of Directors the Company resolved to appoint – effective as from 1 September 2017 – Giuseppe Gola as Financial Reporting Officer for Acea, pursuant to art. 154 bis of Legislative Decree no. 58/1998, who also assumed the office of Finance and Control Administration Director of Acea SpA.

As required by the Articles of Association, the Financial Reporting Officer has a number of years of experience in the performance of managerial duties in administration and control activities at capital companies of significant size and is responsible for establishing and maintaining the internal control system regarding financial statements and to issue a specific certificate according to the model published by Consob, together with the Managing Director. In particular, in accordance with the regulations approved by the Board of Directors of 15 May 2019, he must perform the following duties:

- to provide adequate administrative and accounting procedures for the preparation of the Company's financial statements, the consolidated financial statements and the six-monthly interim report;
- to ensure that the financial statements are drafted in compliance with the applicable international accounting standards;
- to ensure that the Company's deeds and communications disclosed to the market and the relative accounting statements, including the interim reports, correspond to the documentary evidence, the Company's books and the accounting entries;
- to assess, together with the Control and Risks Committee (a) the adequacy of the accounting principles adopted, and (b) their standardisation for the purposes of the drafting of the consolidated financial statements.

In accordance with legal requirements, the Financial Reporting Officer is responsible for the internal control system.

To this end, it prepares the administrative and accounting procedures for the preparation of the financial statements, certifying their adequacy and effective application during the period of reference together with the Managing Director and with a specific declaration to the market.

Pursuant to art. 154 bis of the TUF, the Board of Directors ensures that the Financial Reporting Officer has adequate powers and means to perform the tasks assigned to him or her, as well as effective compliance with the aforementioned procedures.

At the meeting held on 9 March 2020, the Board of Directors confirmed the adequacy of the powers and means available to the Financial Reporting Officer, as well as compliance with the administrative and accounting procedures prepared thereby.

11.6.2. Ethics Officer

In December 2019, as a partial modification and integration of the responsibilities assigned to the head of the Internal Audit department, the Ethics Officer was established as a collective group body whose purpose is to manage the system of reporting alleged violations for non-compliance with the law, internal regulations and the Code of Ethics (Whistleblowing System) and to monitor compliance with the values of transparency, legality, fairness and ethical integrity in relations with employees, suppliers, customers and all stakeholders.

The Ethics Officer will submit to the Managing Director and to Acea SpA's control bodies (Control and Risk Committee, Ethics and Sustainability Committee, Board of Statutory Auditors and Supervisory Board) periodic reports on the notifications received, the studies carried out and the initiatives agreed to in the field of training and communication.

11.6.3. Post Audit Committee

The Post Audit Committee, chaired by the Appointed Director,

has the task of analysing corrective interventions identified by the management downstream of the internal audit activities and monitoring the realisation times thereof.

11.7 COORDINATION AMONG SUBJECTS INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In order to allow the various subjects involved in the SCIGR to adequately perform the role assigned in relation to such system, specific informatory flows are defined among the various levels of control and the competent management and control bodies, duly coordinated in terms of content and timeframes.

Acea's Guidelines contemplate the definition of a series of activities for the coordination between the various subjects involved in the Control System, in order to ensure continuous monitoring of the adequacy and its operation, and to facilitate the efficient exchange of information. These methods briefly consist of:

- periodic coordination meetings regarding, in particular, the processing of the financial information and the assessment, monitoring and mitigation of the risks (economic-financial, operational and compliance risks);
- information flows between the subjects involved in the Control System;
- coordination meetings and joint meetings with the Board of Statutory Auditors, the Control and Risks Committee, the external Auditing Firm, an Officer and the Internal Audit function manager;
- structured information flows on the part of the subjects responsible for the second level controls to the top management, the Internal Audit function, the Risk & Compliance function and the supervisory bodies;
- communication flows between the Internal Audit function and the Risk & Compliance function to support the specific activities of competence. In particular, the Risk & Compliance function informs the Internal Audit function about the main corporate risks useful for preparing the risk-based Audit plan proposal and receives the results of the internal audit activities where relevant to performing its task;
- structured information flows between the Supervisory Bodies of Acea's subsidiaries and the issuer's Supervisory Body;
- periodic reports to the Board of Directors;
- assistance to the Internal Audit function in its activities in the role of Acea's Supervisory Body and to those of the subsidiaries;
- communication flows within each Group company between the Board of Statutory Auditors and the Supervisory Body.

12. DIRECTORS' INTERESTS AND RELATED PARTIES TRANSACTIONS

Prior to discussion on each item on the agenda during the board meeting, every director must report any interests that it holds, directly or on behalf of third parties, connected with the topics or questions to be dealt with, specifying the nature, the terms, the source and the extent.

With regard to transactions with related parties, the procedure for such transactions, issued pursuant to art. 2391 bis of the Civil Code and adopted in accordance with the principles dictated by the Consob Related Parties Regulation effective as of 1 January 2011, was amended by the Board of Directors on 18 December 2013, entering into force on 1 January 2014, and it applies to transactions carried out directly by Acea, or companies directly or indirectly controlled individually by the latter, and related parties.

Depending on the amount, the transactions are divided as follows:

- transactions of *Major Relevance*, in which at least one of the indices of relevance, indicated in Annex 3 of the Consob Related Parties Regulation is above the threshold of 5%, which must be approved by the Acea Board of Directors;
- transactions of *minor value* with a counter-value of not more than € 200,000.00 (two hundred thousand);

- transactions of *Minor Relevance*, which includes all the transactions with related parties that cannot be classified as of major relevance or of minor value.

According to the procedure, before the approval of a transaction with a related party, whether of Major or Minor Relevance, the Transactions with Related Parties' Committee expresses an opinion on the Company's interest in the execution of the transaction and on the convenience and on the substantial correctness of the related conditions.

At present, the Committee for Transactions with Related Parties is composed of three independent directors, namely: Giovanni Giani, as coordinator, Gabriella Chiellino and Massimiliano Capece Minutolo Del Sasso.

The Board of Directors has confirmed the allocation of an annual budget for 2019 of € 50,000.00 (fifty thousand point zero zero) for the Committee so as to allow the latter, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

For further details, please refer to the website www.gruppo.aceait in the "Corporate Governance" section.

13. APPOINTMENT OF THE AUDITORS

In compliance with the provisions of law and of the Articles of Association, the Board of Statutory Auditors is composed of three standing auditors and two alternative auditors, appointed by the Ordinary Shareholders' Meeting for a term of three financial periods, and they can be re-elected on expiry of their mandate.

There must be a gender balance in the composition of the Board of Statutory Auditors, as governed by law.

The Board of Statutory Auditors is appointed, in compliance with art. 22 of the Articles of Association, by the same methods as those for the appointment of the Directors, illustrated above. Half plus one of the standing auditors to be elected will be drawn from the list that has obtained the majority of votes, in the progressive order in which they are placed on the list, rounded down to the nearest whole number in the case of a fractioned number, and one alternative auditor.

For the other members of the Board of Statutory Auditors, the standing auditor and alternate auditor will be respectively those who have obtained the first and second highest quotient in the mi-

nority lists; pursuant to the combined provision of arts. 15 and 22 of the Articles of Association, in case of equal percentage, the standing auditor will be the one on the minority list that has obtained most votes. In any case, at least one standing auditor must be elected by the minority shareholders. If an auditor leaves office during a financial period, the alternative auditor on the same list as the outgoing auditor will take his/her place.

The appointment of auditors who, for any reason, are not elected according to the above-illustrated procedure, must be approved by a Shareholders' Resolution passed with the majority required by law.

The Chairman of the Board of Statutory Auditors will be chosen from those effectively elected from the minority list.

The lists must be presented 25 days before the date scheduled for the first meeting by shareholders that, alone or with other shareholders, hold at least 1% of the shares with voting rights at the Ordinary Shareholders' Meeting, as established by art. 15 of the articles of association.

14. COMPOSITION AND OPERATION OF THE BOARD OF AUDITORS (as per art. 123 bis, para. 2, lett. d, TUF)

The current Board of Statutory Auditors was appointed by the Ordinary Shareholders' Meeting of 17 April 2019 and its mandate will expire on the approval of the financial statements for 2021.

For the appointment by the Shareholders, two lists were presented: List no. 1 presented by Roma Capitale with three candidates, Maria Francesca Talamonti, Pina Murè and Maria Federica Izzo, and List no. 2 presented by the shareholder Fincal SpA with two candidates, Maurizio Lauri and Mario Venezia. List no. 1 was voted by 73.59% and List no. 2 by 26.31% of voters.

According to the appointments at that Meeting, the Board of Statutory Directors is formed, as described in *Table 3*, by the components below, a brief professional description of whom is given, in compliance with art. 144-decies of the Issuers' Regulations:

- **Maurizio Lauri, Chairman.** Born in Rome on 16 August 1962. Master of Laws (LL.M.) – London School of Economics and Political Science, University of London. He has served on the Boards of Directors of Habanos, Lauda Air, Gambero Rosso. He was Sole Director of Servizi Azionista Roma (Municipality of Rome). He was Chairman of the Board of Directors of Banca Intermobiliare. A Chartered Accountant and Auditor, he has participated in the Board of Auditors of the Agenzia delle Entrate and Assinform – Confindustria. Upon joint appointment of the Presidents of the House and Senate, he participated in the Board of Auditors for the control of political party financial statements. He served as Chairman of the Board of Statutory Auditors of Unicredit, Acquadotto Nicolay, Forte Village and Hitachi CBT. He was standing auditor of ANAS. He is a member of the controlling body of GEDI, Officine CST and the Fondazione Roma Europa Festival. He is auditor of the American Academy in Rome. He was a member of the Working Group for the Rulings of the Principles of Conduct of Control Bodies (Board of Statutory Auditors, Internal Control Committee and Supervisory Board) of the National Council of Chartered Accountants and Accounting Experts and of the Executive Committee of NedCommunity (of which he is a member). He is a member of the European Audit Committee Leadership Group of the Tapestry Network.
- **Pina Murè, Standing Auditor.** Born in Rome on 16 January 1967. A Chartered Accountant and Auditor, she is professor of economics of financial intermediaries at the University of Rome La Sapienza. Since 1998 she has been providing consulting services for financial intermediaries and companies, as well as training for banks. She is the author of numerous scientific publications on financial issues. Governance and internal control systems are part of her research areas.
- **Maria Francesca Talamonti, Standing Auditor.** Born in Rome on 5 January 1978. Graduated in Economics and Business at LUISS Guido Carli, PhD in Business Administration. She is a member of the Order of Chartered Accountants of Rome and is listed on the Register of Certified Auditors. She provides consulting services in corporate, accounting, corporate and financial matters. She is a member of boards of statutory auditors and boards of directors.
- **Mario Venezia, Alternate Auditor.** Born in Rome on 27 June 1957. A Chartered Accountant and Auditor, he is an adjunct

professor of business economics at La Sapienza University in Rome and has been a member of the board of statutory auditors, the Board of Directors and the Supervisory Board of several companies.

- **Maria Federica Izzo, Alternate Auditor.** Born 27 January 1981. A Chartered Accountant and Auditor, she studied at L.U.I.S.S. University in Rome and at foreign universities. She is the author of several publications, in particular on corporate governance and integrated reporting.

The auditors have been chosen amongst people who can be qualified as independent and they must act with autonomy and independence, also as regards the shareholders that have elected them. Soon after her appointment, the Board of Statutory Auditors verified and confirmed that she met the independence requirements envisaged by law and the Corporate Governance Code and communicated the result of this verification to the Company's Board of Directors. The outcome of the checks carried out was communicated to the market with a press release.

Subsequently, the Board in office has regularly verified the existence of the independence requirements pursuant to the law and art. 3 of the Code regarding its effective members, verifying their existence and submitting the outcome of such verifications to the Board.

The Board of Statutory Auditors receives from the administrative body, at the Board of Directors' meetings, information on the activity performed by the Board of Directors, by directly participating in the Board of Directors' meetings and by examination of the material which illustrates the items on the agenda, which it receives in advance in the same format and within the same terms as the documentation received by the Directors.

With regard to induction, the Chairperson of the Board of Directors ensured that the Statutory Auditors can participate in training initiatives. For more information please refer to the section "*Induction Programme*".

The Board of Statutory Auditors exercises the powers and performs the duties contemplated by the provisions in force. In the performance of its activity, it cooperates with the Internal Audit function prevalently by periodic meetings for the illustration of the work plan of the independent monitoring activities and of the results of the main actions carried out during the period. It also cooperates with the Control and Risks Committee, by the participation of the Chairman and/or the Auditors at the meetings.

The remuneration of statutory auditors is commensurate with the commitment required, the importance of the role held and the Company's size and sectorial characteristics.

During the period, the Board of Statutory Auditors held 21 meetings, with an average duration of 3 hours 30 minutes, regularly attended by the statutory auditors.

In 2020, as at the date of this Report, the Board has met 4 times with an average meeting duration of 4 hour 50 minutes.

DIVERSITY CRITERIA AND POLICY

For the Company's diversity policies, please refer to the considerations made in section 4.2.

15. RELATIONS WITH SHAREHOLDERS

Information regarding the Company is precisely and immediately disclosed to the market and to the relative Supervisory Authorities. The information in question is constantly updated and made available on the Company's internet site at www.gruppo.acea.it.

Acea's organisational structure includes an Investor Relations Function, which hierarchically reports to the Managing Director, the Manager of which is Ms Elvira Angrisani.

On the approval of the annual, six-monthly and quarterly results of the Business Plan and of the execution of possible extraordinary price sensitive transactions, the Company organises special conference calls with institutional investors and financial analysts. In this context, Acea maintains a dialogue with investors based on the principles of propriety and transparency in compliance with EU and national regulations on market abuse and with international best practices.

Conference calls were held in 2019 with the financial community upon the approval of the company's annual and interim results and the 2019-2022 Business Plan, and about 130 analysts/investors participated; road-shows were held in the main national and international cities (Rome, Milan, London, Paris, New York), during which one-to-one meetings took place as well as presentations to large audiences of about 120 equity investors, buy side analysts and investors/credit analysts; the Company participated in Utility Conferences organised by Borsa Italia and by the main merchant banks. In addition, to ensure timely notification to shareholders and Investors, corporate documents, press releases, notices and other information concerning the Group is published on the Company's Internet site (www.gruppo.acea.it) within the terms laid down by the laws in force. There is a specific "Investors" section on the Company's website.

16. SHAREHOLDERS' MEETINGS (as per art. 123 bis, para. 2, lett. c, TUF)

The organisational regulation for the Shareholders' meeting is contained in the Acea Articles of Association which, in addition to referring to the provisions of law, dedicates Articles 10, 11, 12, 13 and 14 to the Shareholders' Meeting.

As at 31 December 2019 and to date, art. 10 envisages the methods for convening the Shareholders' Meeting, stating in article 10.3:

"without prejudice to the powers of convocation contemplated by specific provisions of law, the Shareholders' Meeting, whether ordinary or extraordinary, is summoned by the Board of Directors by a notice containing indication of the day and place of the meeting and the list of matters on the agenda".

Under paragraph 4 of the same article, it is also stated that the Meeting can be held elsewhere than at the registered office, providing it is held in Italy:

"The notice is published on the Company's Internet site, in the Official Journal of the Italian Republic and in the daily newspaper "Il Sole 24 Ore" within the terms laid down by the laws in force. The meeting can be summoned also more than twice. The convocation notice can establish that the meeting will be held, on a different day, on second, third or ulterior convocation, if the quorum required by law for its constitution is not reached on the preceding convocation".

Art. 11.1 states that:

"The Ordinary Shareholders' Meeting must be held at least once a year for the approval of the financial statements within 120 days from the closure of the financial period, or within 180 days of the said closure in the case of the conditions contemplated by art. 2364 of the Italian Civil Code".

Art. 11.2 states that:

"The Extraordinary Shareholders' Meeting is held whenever it is necessary to pass a resolution reserved to the same by law".

Art. 11.3 establishes that:

"The Shareholders' Meeting, whether ordinary or extraordinary, is also held when requested by as many Shareholders as represent the percentages contemplated by the laws in force, and the request must specify the items to be discussed, or when requested by the Board of Statutory Auditors or members of the same in the cases contemplated by law.

In addition, as many Shareholders as represent the percentages contemplated by the laws in force may request, in respect of the terms laid down by the laws in force, additions to the subjects to be discussed, indicating in the request the additional items that they propose. The convocation and the addition of items to the agenda at the request of Shareholders are not admitted on matters on which the Shareholders' Meeting is obliged by law to pass resolutions on Directors' proposals or on the basis of a project or a report prepared by the Directors".

Art. 12 of the Articles of Association expressly states that the majorities necessary for the Meeting, whether ordinary or extraordinary, and its resolutions to be quorate are those contemplated by law.

Article 13.1 of the Shareholders' Meeting establishes that:

"entitlement to participate in the Shareholders' Meeting and to exercise the right to vote is testified by a communication to the issuer made by the intermediary, in conformity with the accounting evidence, in favour of the subject holding the right to vote, according to the procedures and terms laid down by the laws in force" (the so-called "record date").

Art. 13.2 provides for the Shareholders entitled to participate in the Meeting to be represented pursuant and according to the procedures of law.

Similarly, the same paragraph of article 13 states that:

"with the exception of Roma Capitale or its subsidiaries that have be-

come shareholders, the voting right cannot be exercised, directly or by proxy, for more than 8% of the share capital".

To this regard, it is necessary to pay attention to art. 6 of the Articles of Association, which, however, provides that:

"with the exception of Roma Capitale and its subsidiaries that have become shareholders, no shareholder may hold a stake of more than 8% of the share capital. In the case of non-observance, the shareholder may not exercise the voting right on the shares in excess of that limit and resolutions adopted with the determining vote of such shares that should not bear voting rights according to this art. 6, can be challenged pursuant to and according to the procedures of art. 2377 of the Italian Civil Code. Shares for which the voting right cannot be exercised are calculated in any case for the purpose of ascertaining that the Meeting is quorate" (art. 6.1 of the Articles of Association).

The aforesaid limit also applies to stakes held by the group to which each shareholder belongs, i.e.:

- a group formed of natural or legal persons which, directly or indirectly, control, are controlled by or are affiliates of the shareholder;
- a group formed of subjects connected to the shareholder, even if they do not have a corporate form;
- a group formed of natural or legal persons which, directly or indirectly, explicitly or by determining behaviour, have entered into or, in any case, adhere to agreements of the type contemplated by art. 122 of Legislative Decree no. 58/98, if such agreements regard at least 8% of the capital with voting rights.

Control and affiliation, for the purposes of this art. 6, are considered as recurrent in the cases contemplated by art. 2359 of the Italian Civil Code". (art. 6.2 of the Articles of Association).

According to point no. 3 of art. 6, the limit referred to in art. 6, point 1, also applies in the case of:

- "shares held by members of the shareholder's family, understood as composed of the shareholder, his/her spouse, unless they are divorced, and their cohabiting children and/or children still economically dependent on the shareholder;
- shares held by a natural or legal person through a subsidiary or a trust or by proxy;
- shares held directly or indirectly that are restricted by lien or usufruct, if the relative voting rights are held by the lien creditor or the usufructuary;
- shares subject to repurchase agreement, which will be taken into account with regard to the giver-over and the hedger".

Point 4 of article 6 further establishes that:

"anyone that holds Company shares in excess of 8% of the share capital must inform the Company in writing within the twenty days following the transaction which resulted in this limit being exceeded".

Another constraint placed by article 6 in point number 5 is that:

"shareholders that have not contributed to the approval of the resolutions regarding the introduction or the removal of restrictions on the circulation of the shares do not have the withdrawal right".

Art. 13.3 provides that:

"To facilitate the collection of proxies from shareholding employees of the Company, its subsidiaries and affiliates and shareholders' associations, with the requisites contemplated by the relative provisions in force, specific spaces are made available for the communication and the collection of the proxies according to terms and methods set by the Board of Directors directly or through its proxies.

If a proxy is conferred electronically, according to the procedures contemplated by the regulations in force at any moment, said proxy may

be communicated via the Company's Internet site according to the procedures specified in the notice of convocation".

On 3 November 2000, the Ordinary Shareholders' Meeting approved the adoption of Regulations (available on the Internet site at www.gruppo.acea.it) that discipline the ordered functioning of the Shareholders' Meeting.

Art. 7. 3 of the said Regulations disciplines the procedures which guarantee the shareholder's right to take the floor on the topics under discussion, and in particular:

"The request to take the floor on the single items on the agenda may be presented to the Chairman (of the Shareholders' Meeting) from the moment the Meeting is constituted until the Chairman of the Meeting declares the discussion on the item closed. In giving the floor, the Chairman of the Shareholders' Meeting normally follows the order of the presentation of the requests for the floor. Each shareholder may take the floor

only once on each item on the agenda, and for no more than 10 minutes". The Board of Directors has reported to the Shareholders' Meeting the activity performed and programmed, thus ensuring that the shareholders are correctly informed on the elements necessary to allow them to take informed decisions on the matters of their competence.

The Board of Directors considers the Shareholders' Meeting to be a particularly significant moment for its relations with the shareholders; therefore, it makes all efforts, as far as falling within its competence, to encourage and facilitate the broadest participation possible of the shareholders at the Meetings.

In financial year 2019 and to date, no significant changes have taken place in the capitalisation of the Acea shares or in the composition of its corporate bodies, that could harm the prerogatives of the minority shareholders.

17. OTHER CORPORATE GOVERNANCE PRACTICES (as per art. 123 bis, para. 2, lett. a, TUF)

With a resolution of the Board of Directors dated 10 May 2018, the Tender Supervision Committee was established, its rules being approved on the same date.

The Committee is chaired by the Chairman of the Board of Directors and is composed of the Managing Director, a Board Member chosen from among the Independent Directors, an external Professional with expertise in tenders and administrative law and the Head of the Risk & Compliance function. In the event of absence or impediment, the member chosen from the independent Direc-

tors is replaced by an alternate member appointed by the Board of Directors, again from among the independent Directors.

The Committee remains in office for the duration of the term of office of the Board of Directors that appointed it.

Upon the Chairman's proposal, the heads of relevant corporate functions or other persons deemed useful for the discussion of the items on the agenda are invited to participate in the meetings.

The Committee offers proposals and consulting and performs monitoring in the field of tenders.

18. CHANGES SINCE THE CLOSURE OF THE FINANCIAL YEAR

The changes that have taken place after closure of the period until this day are described in the specific sections.

19. CONSIDERATIONS ON THE LETTER OF 20 DECEMBER 2019 OF THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

On 20 December 2019, as part of the monitoring of the implementation of the Code by issuers, the Chairman of the Corporate Governance Committee sent a communication that identifies a series of areas where it would be best to improve compliance with the recommendations of the Code itself.

At a meeting held on 22 January 2020, in response to input from the Chairman, the Company's Board of Directors examined the text of the letter and the points it underscored, and with the support of the relevant corporate functions it noted that, without prejudice to further improvements, Acea SpA's system of Corpo-

rate Governance is substantially in line with the guidelines contained in the letter.

The pertinent recommendations made in the letter were also submitted to the Acea SpA. Board of Statutory Auditors at the meeting held on 25 February 2020.

For more details, please refer to the relevant sections of the Report, and in particular to sections 4.3. ("*Role of the BoD – Operations*"), 4.6 ("*Independent Directors*") and 8 ("*Remuneration of Directors*" and "*Remuneration of non-executive Directors*"),

For the Board of Directors
Chairperson
Michaela Castelli

TABLES

TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE

SHARE CAPITAL STRUCTURE				
	No. of Shares	% compliance to the cs	Listed on Borsa Italiana's online stock exchange	Rights and obligations
Ordinary shares	212,964,000	100%	100%	
Shares with limited voting rights	-----			
Shares without voting rights	-----			

OTHER FINANCIAL INSTRUMENTS (attributing the right to subscribe newly issued shares)				
	Listed (specify the markets)/unlisted	N° of instruments in circulation	Share class Service of conversion/exercise	No. of shares in service of the conversion/year
Bonds Convertible	-----	-----	-----	-----
Warrant	-----	-----		

SIGNIFICANT EQUITY INVESTMENTS from the CONSOB website as at 9 March 2020				
Declarant		% of capital Ordinary		% of capital voting
ROMA CAPITALE	Roma Capitale	51%		51%
SUEZ SA	Suez Sa	10.850%		23.333%
	Suez Italia SpA	12.483%		
CALTAGIRONE FRANCESCO GAETANO	Viapar Srl	0.939%		5.006%
	Fincal SpA	2.677%		
	So.fi.cos. Srl	0.780%		
	Viafin Srl	0.610%		

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES AS AT 31/12/2019
BOARD OF DIRECTORS

Office	Members	Year of birth	Date first appointment*	In office from	In office until	List (M/m)**	Exec.	Non-Exec.
Chairman	Michaela Castelli	1970	27/04/2017	27/04/2017	31/12/2019	M		x
MD	Stefano Antonio Donnarumma	1967	27/04/2017	27/04/2017	31/12/2019	M	x	
Director	Maria Verbena Sterpetti	1986	17/04/2019	17/04/2019	31/12/2019	M		x
Director	Gabriella Chiellino	1970	27/04/2017	27/04/2017	31/12/2019	M		x
Director	Liliana Godino	1962	27/04/2017	27/04/2017	31/12/2019	M		x
Director	Giovanni Giani	1950	coop. BoD 29/11/2011 Ass. 04/05/2012	27/04/2017	31/12/2019	m		x
Director	Alessandro Caltagirone	1969	27/04/2017	27/04/2017	31/12/2019	m		x
Director	Massimiliano Capece Minutolo Del Sasso	1968	23/04/2015	27/04/2017	31/12/2019	m		x
Director	Diane Galbe	1981	11/12/2019 (cooptation)	11/12/2019	31/12/2019	m		x

DIRECTORS LEAVING OFFICE DURING FINANCIAL YEAR 2019
BOARD OF DIRECTORS

Office	Members	Year of birth	Date first appointment*	In office from	In office until	List (M/m)**	Exec.	Non-Exec.
Director	Fabrice Rossignol	1955	15/04/2013	27/04/2017	06/12/2019	m		x
Director	Luca Alfredo Lanzalone	1969	27/04/2017	27/04/2017	15/03/2019	M		x

No. meetings held in 2019: 13

Executive Committee: 8

Quorum required for the submission of lists by minorities for the election of one or more members (per art. 147-ter TUF): 1% of the shares with voting rights.

NOTES

- This symbol indicates the director in charge of the internal control and risk management system.
- * The date of first appointment refers to the date on which the director was appointed for the (very) first time as a member of Acea SpA's BoD.
- ** This column indicates the list from which each director was taken ("M": majority list; "m": minority list).
- *** This column indicates the number of offices that directors or statutory auditors hold in other companies listed on regulated markets, even abroad, in financial, banking and insurance companies or large companies. The offices are explained in full on the last page of the Corporate Governance Report.
- (1) This column indicates the directors' participation in the meetings of, respectively, the BoD and committees.
- (2) This column indicates the qualification of the Director within the Committee: "P": Chairman; "M": member.

BOARD OF DIRECTORS

Office	Members	Indep. from code	Indep from TUF	No. of other offices***	(1)	Executive Committee		Committee Control and Risks		Appoint. and Remun.		Ethics and Sustainability Committee	
						(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)
Chairman	Michaela Castelli			6	13/13	M	8/8	M	10/11			M	7/8
MD	Stefano Antonio Donnarumma			-----	13/13	M	8/8						
Director	Maria Verbena Sterpetti	x	x	-----	8/8								
Director	Gabriella Chiellino	x	x	2	13/13					M	9/10	P	8/8
Director	Liliana Godino	x	x	-----	13/13			P	11/11	P	10/10		
Director	Giovanni Giani	x	x	-----	13/13	P	8/8	M	10/11	M	10/10	M	4/8
Director	Alessandro Caltagirone	x	x	7	9/13								
Director	Massimiliano Capece Minutolo Del Sasso	x	x	8	13/13	M	7/8	M	9/11	M	9/10		
Director	Diane Galbe	x	x	-----	1/1								

BOARD OF DIRECTORS

Office	Members	Indep. from code	Indep from TUF	No. of other offices***	(1)	Executive Committee		Committee Control and Risks		Appoint. and Remun.		Ethics and Sustainability Committee	
						(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)
Director	Fabrice Rossignol	x	x	-----	11/12								
Director	Luca Alfredo Lanzalone			-----	0/3								

Control and Risks Committee: 11

Appointments and Remuneration Committee: 10

Ethics and Sustainability Committee : 8

TABLE 3: STRUCTURE OF THE BOARD OF AUDITORS AS AT 31/12/2019

BOARD OF AUDITORS									
Quorum required to present lists upon the last appointment: 1% of voting shares									
Office	Members	Year of birth	Date first appointment*	In office since	In office until	List (M/m)**	Independence from code	Attendance at meetings	Number of other offices***
Chairman	Maurizio Lauri	1962	2019	17/04/2019	31/12/2021	m	x	16/16	7
Statutory auditor	Pina Murè	1967	2019	17/04/2019	31/12/2021	M	x	15/16	---
Statutory auditor	Maria Francesca Talamonti	1978	2019	17/04/2019	31/12/2021	M	x	16/16	18
Alternate auditor	Maria Federica Izzo	1981	2019	17/04/2019	31/12/2021	M	x	N.A	N.A
Alternate auditor	Mario Venezia	1957	2019	17/04/2019	31/12/2021	m	x	N.A	N.A

STATUTORY AUDITORS LEAVING OFFICE DURING FINANCIAL YEAR 2019

Office	Members	Year of birth	Date first appointment*	In office since	In office until	List (M/m)**	Independence from code	Attendance at meetings	Number of other offices***
Chairman	Enrico Laghi	1969	2010	28/04/2016	31/12/2018	m	x	3/6	
Statutory auditor	Rosina Cichello	1967	2016	28/04/2016	31/12/2018	M	x	6/6	
Statutory auditor	Corrado Gatti	1974	2010	28/04/2016	31/12/2018	M	x	6/6	
Alternate auditor	Lucia Di Giuseppe	1966	2016	28/04/2016	31/12/2018	M	x	N.A	
Alternate auditor	Carlo Schiavone	1960	2016	28/04/2016	31/12/2018	m	x	N.A	

No. meetings held in 2019: 22

Quorum required for the submission of lists by minorities for the election of one or more members (per art. 148 TUF): 1% of the shares with voting rights.

NOTES

- * The date of first appointment refers to the date on which the auditor was appointed for the (very) first time as a member of the issuer's Board of Auditors.
- ** This column indicates the list from which each auditor was taken ("M": majority list; "m": minority list).
- *** This column indicates the participation of the auditors in the meetings of the Board of Auditors.
- **** This column indicates the number of offices held as directors or auditors by the subjects concerned, pursuant to art. 148 bis of the TUF and of the relative implementation provisions contained in the CONSOB Issuers Regulations. The full list of offices is published by CONSOB on its website in compliance with art. 144-quinquiesdecies of the CONSOB Issuers' Regulations.

**TABLE 1.
COMPOSITION OF THE ACEA BOARD OF DIRECTORS AND OFFICES HELD BY THE DIRECTORS IN OTHER COMPANIES AS AT 31/12/2019**

Position	Name	Position	Other Offices*
Chairman	Michaela Castelli	Director	Nexi SpA (P) Sea SpA (P) La Doria SpA Recordati SpA Autogrill Italia SpA (membro CS)
Managing Director	Stefano Antonio Donnarumma	Executive director	-----
Director	Gabriella Chiellino	Independent director	Ambhientesis SpA
Director	Maria Verbena Sterpetti	Independent director	-----
Director	Liliana Godino	Independent director	-----
Director	Giovanni Giani	Independent director	-----
Director	Alessandro Caltagirone	Independent director	Aalborg Portland Holding A/S (VP) Cementir Holding N.V. (VP) Caltagirone SpA Caltagirone Editore SpA Vianini Lavori SpA Il Messaggero SpA
Director	Diane Galbe	Independent director	-----
Director	Massimiliano Capece Minutolo Del Sasso	Independent director	Vianini SpA Piemme SpA

* List of offices held as director or auditor by each Board Director in other companies listed on regulated markets, also abroad, in financial, banking and insurance companies or companies of relevant dimensions.

2019

FINANCIAL STATEMENTS OF ACEA SPA

ACEA GROUP

ACEA SPA

Registered Office
Piazzale Ostiense 2 – 00154 Roma

Share Capital

Euro 1,098,898,884 fully paid up

Tax Code, VAT No.

and Rome Companies Registry No.
05394801004

Rome Economic and Administrative Index No. 882486

Under the responsibility of

Administration, Finance and Control
Acea SpA

Editorial Coordinator

External Relations, Communication
Acea SpA

Art, Graphic Design and Impagination Management

K-Change Srl
For Acea SpA coordination **Tiziana Flaviani**

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ACEA SPA

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