

2020

FINANCIAL STATEMENTS OF ACEA SPA

ACEA GROUP CONSOLIDATED
FINANCIAL STATEMENTS



acea



2020

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OF ACEA SPA

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LETTER TO SHAREHOLDERS



DEAR SHAREHOLDERS,

The year ended 31 December 2020 was made historic year by the spread of a pandemic that has not only overwhelmed the whole of the human race in terms of health, but has unbalanced much that was thought to be unshakeable.

Our company faced the crisis with an extraordinary response which deserves to be read beyond the numbers represented here, but which are also an expression of the commitment made. This effort, combined with our financial strength and the strength of our operating businesses allowed us, despite the situation, to achieve results that grew compared to the previous year.

The considerable increase in EBITDA is mainly attributable to the positive performance of the regulated activities of water and electricity distribution. This demonstrates the effectiveness of a strategy aimed at achieving sustainability objectives that combines economic growth and value creation.

In fact, the experience of this past year highlights how essential sustainability is for a new development model on a global level and how crucial the role of utilities is to enable this evolution and to re-launch the economy in our country.

Once again Acea has outlined its sustainable growth plan in the new 2020-2024 Business Plan, which shows, in presenting substantial aspects of continuity with respect to the previous plan,

notable elements of change, especially with regard to the significant growth in the production of electricity from renewable sources, particularly in regard to the photovoltaic sector, and activities carried out in view of smart city concepts, to contribute to the energy transition and decarbonisation in an increasingly pronounced way.

Therefore, the position of the Group as an operator with a strong industrial vocation has been further consolidated and the desire to make major investments has been strengthened that, while maintaining the robustness of the financial structure, have a positive impact on the Group's operating and economic performance. Additionally, the constant drive towards innovation should be highlighted, with further investments in digitisation and the creation of intelligent management systems for grids and services.

At the same time, the commitment to protect water resources and to prevent and mitigate the effects of climate change continues, together with infrastructural growth in the waste treatment sector and in the circular economy, expanding know-how in asset management and bringing value through the application of new technologies.

Precisely by virtue of the role performed in these essential sectors, Acea worked from the earliest evidence that Covid-19 was spreading, to define and implement all the measures necessary to guarantee the continuity and quality of service, while at the same time adopting prevention protocols for the safety of its people working in the territory, in the plants, in the offices and in branch-



es open to the public, and taking care to also protect customers, users, suppliers and in general anyone who had access to the Group locations.

The forecast for 2021 is for even more growth, even though it is still a complex scenario.

The success of the Green Bond placement last January confirms that sustainability is a structural factor that guides strategic business choices and operational management, with a view to consolidation and

strengthening through new opportunities for positioning the Group in the sectors of reference.

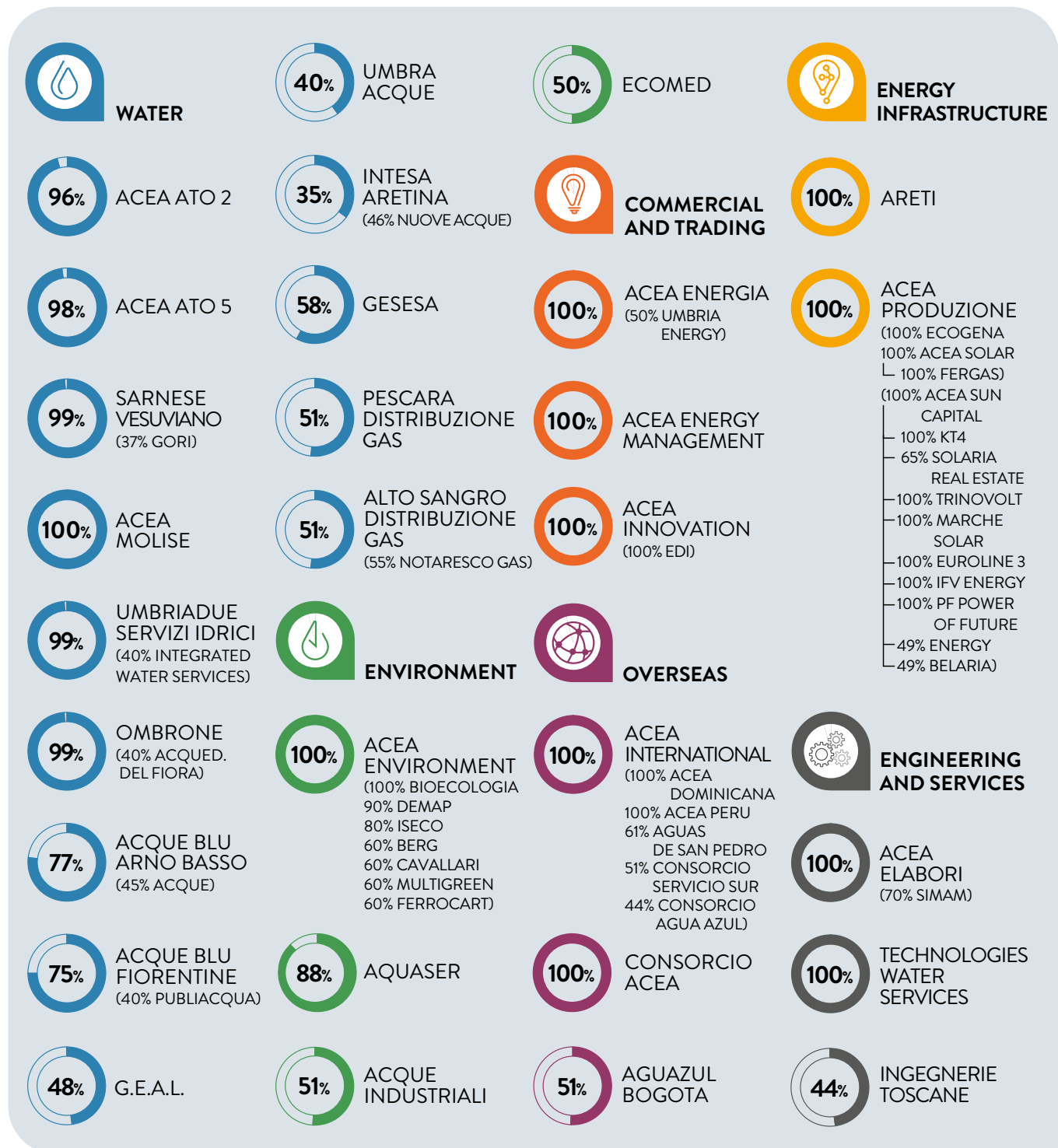
Thank you to everyone who dedicated their time not only to achieving these results, but also for having contributed to making Acea a company that is reliable and worthy of its customers' and stakeholders' trust. By talking and listening to us, our customers and stakeholders have seen a distinctive element in our company that we trust will continue to grow over time.

The Chief Executive Officer
Giuseppe Gola

The Chairperson
Michaela Castelli

GROUP STRUCTURE

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



INVESTOR RELATIONS

THE SHARE CAPITAL OF ACEA SPA AT 31 DECEMBER 2020 WAS MADE UP AS FOLLOWS:

51.00%

Roma Capitale

23.33%

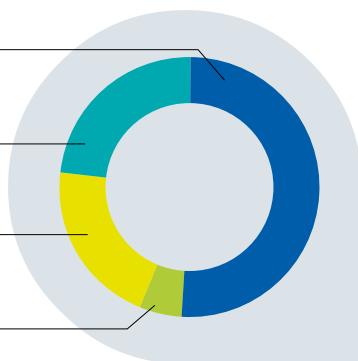
Suez

20.22%

Market

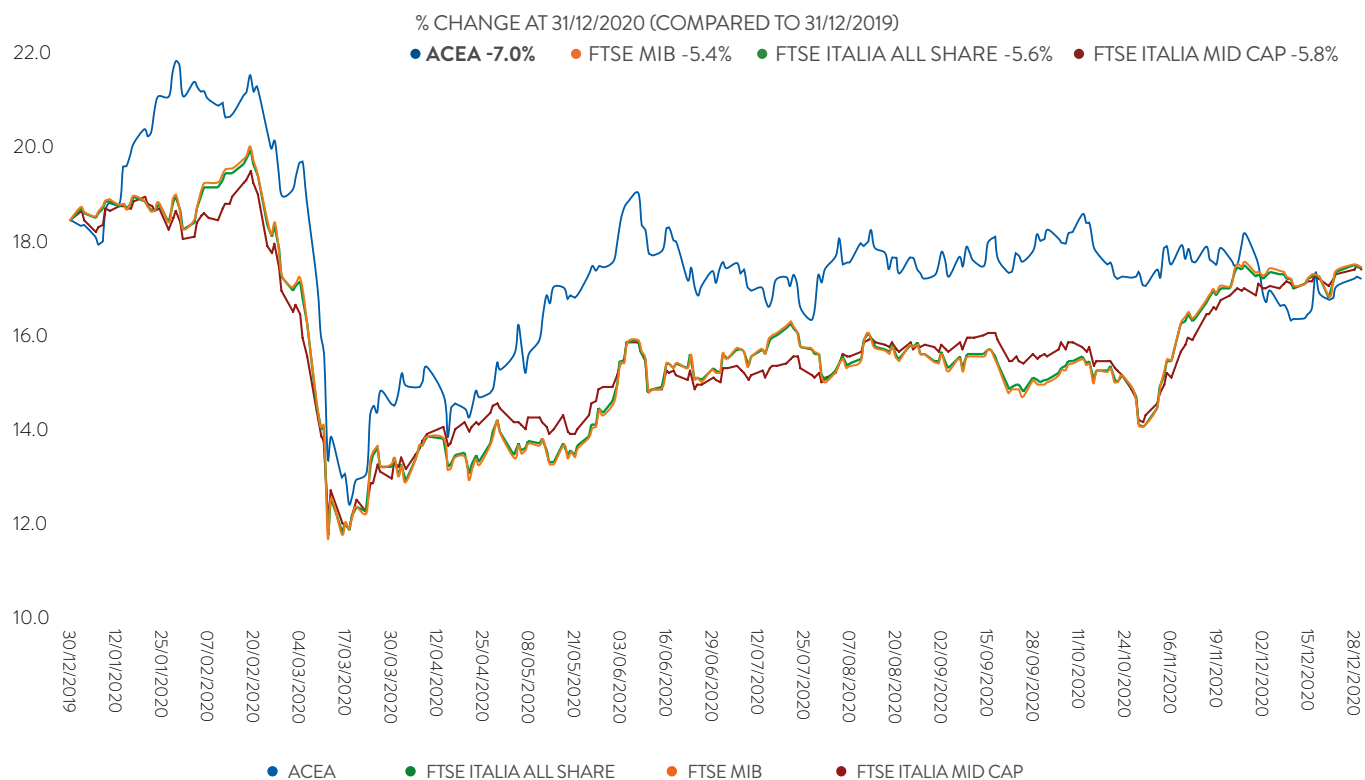
5.45%

Caltagirone



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

ACEA STOCK PERFORMANCE IN 2020



(Graph normalised to Acea values. Source: Bloomberg)

CORPORATE HIGHLIGHTS



WATER

NUMBER ONE OPERATOR

in Italy for water services

With around **9** mln

residents served in Lazio, Tuscany, Umbria, Campania and Molise



ENERGY INFRASTRUCTURE

ONE OF THE LEADING

energy distribution operators in Italy

With over **9** TWh

of electricity distributed



COMMERCIAL AND TRADING

ONE OF THE LEADING

national players in the energy market

With around **7.1** TWh

of electricity sold



ENVIRONMENT

ITALY'S LEADING OPERATOR

in Waste Management

With around **1.45** mln tonnes

of waste managed



OVERSEAS

A TOTAL OF

5 companies operating in water services

7 mln residents served in Latin America



ENGINEERING AND SERVICES

FOUR DEDICATED COMPANIES

448,185 drinking water analyses

214,819 waste water analyses

FINANCIAL HIGHLIGHTS

FIGURES IN MILLIONS OF EUROS

CONSOLIDATED REVENUES



EBITDA



EBIT



PROFIT/(LOSS) BEFORE TAX



NET PROFIT/(LOSS) OF THE GROUP



GROUP INVESTMENTS



THE ORGANISATIONAL MODEL

Acea adopts 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, Environment, Overseas and Engineering and Services.

The activities of each business segment are described below.

EBITDA 2020

1,155 €mln

85%

REGULATED
ACTIVITIES

15%

UNREGULATED
ACTIVITIES



WATER

The Acea Group is the top Italian operator in the water sector serving around 9 million people.

The Group manages the Integrated Water Services in Rome and Frosinone and in the respective provinces, as well as in other parts of Lazio, in Tuscany, Umbria, Campania and Molise.

NUMBER ONE OPERATOR IN ITALY

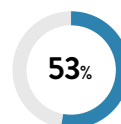
- Around 9 million residents served and 1,397 million cubic metres of water supplied annually
- Around 58,700 km of drinking water supply network and 23,700 km of sewer network managed

- Management of the entire integrated water cycle supply chain from collection of water through to its return to the environment
- Design, construction and operation of distribution plants and networks using innovative technologies
- Focus on protecting water resources and sustainability

EBITDA **+21.7%**



INVESTMENTS **+25.2%**



53%
of consolidated
EBITDA



ENERGY INFRASTRUCTURE

The Acea Group is a major operator in Italy with over 9 TWh of electricity distributed in Rome and Formello.

The Group also manages the public and artistic lighting of the capital for a total of 226,635 lights.

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 LEADING OPERATORS IN ITALY

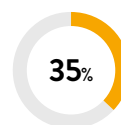
- Electricity distributed: 9.1 TWh in the city of Rome
- Energy generated: 469 GWh
- Management of public and artistic lighting in Rome: 200,765 lights

- Energy efficiency projects
- Hydroelectric power stations: 121 MW
- Thermoelectric plants: 97 MW
- Photovoltaic plants: 52 MWp

EBITDA **+5.4%**



INVESTMENTS **+13%**



35%
of consolidated
EBITDA



COMMERCIAL AND TRADING

The Acea Group is one of the leading Italian players in the sale of electricity and offers innovative and flexible solutions for the supply of electricity and natural gas with the objective of consolidating its positioning as a dual fuel operator. It operates in the market segments of medium-sized companies and households with the aim of evolving from a commodity supplier to a multi-service partner (e-mobility, efficiency, circular economy). It supervises the Group's energy management policies.

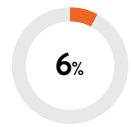
ONE OF THE LEADING OPERATORS IN ITALY

- Electricity sold: 7.1 TWh
- Free market customers: 0.44 million
- Protected market customers: 0.75 million
- Gas customers: 0.21 million

EBITDA +4.8%



INVESTMENTS +2.5%



6%
of consolidated
EBITDA



OVERSEAS

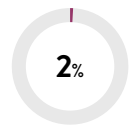
Through this Area, the Acea Group manages water activities in Latin America and its objective is to make the most of development opportunities in other businesses related to those already held in Italy. It is present in Honduras, the Dominican Republic and Peru, serving approximately 7 million people. 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 +50%



INVESTMENTS -56%



2%
of consolidated
EBITDA



ENVIRONMENT

The Acea Group is one of the leading players in Italy with more than 1.45 million tonnes of waste managed each year. It manages the main waste-to-energy plant and the largest composting plant in the Region of Lazio. The Group pays particular attention to investments in the waste to energy sector, deemed to have high potential, consistent with the strategic objective of environmental and energy recovery from waste products, while also focussing attention and awareness on plastic recycling and the production of high quality compost.

NUMBER ONE OPERATOR IN ITALY

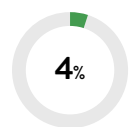
Umbria, Lazio, Tuscany, Piedmont,
Valle d'Aosta and Marche

EBITDA -3%



- Waste managed: 1.45 million tonnes
- Electricity transferred (WTE): 320 GWh
- Energy produced: 373 GWh

INVESTMENTS -55%



4%
of consolidated
EBITDA



ENGINEERING AND SERVICES

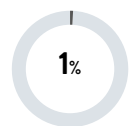
The Acea Group has developed cutting-edge know how for laboratory analysis, design, construction and management of networks and plants for Integrated Water Services, waste processing and recovery and electricity production and distribution.

- Analytical testing of water destined for human consumption: 448,185 potable water, mainly Acea Ato 2 and Acea Ato 5
- Laboratory analyses of wastewater: 214,819
- Worksite inspections: 14,904

EBITDA +13%



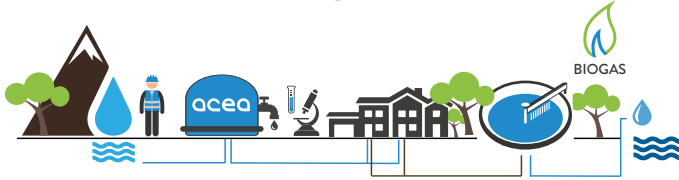
INVESTMENTS



1%
of consolidated
EBITDA

ACEA'S BUSINESS MODEL

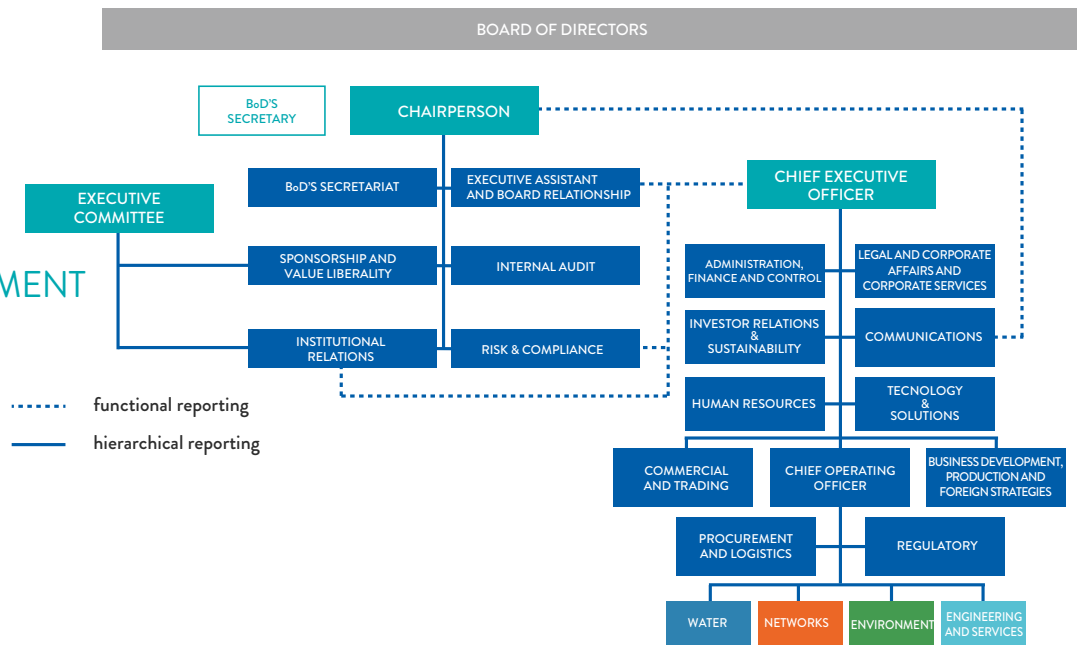
A WATER SUPPLY CHAIN: Integrated Water Service



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

GOVERNANCE
POLICY
STRATEGY

NATURAL ENVIRONMENT



D ENVIRONMENT SUPPLY CHAIN: CIRCULAR ECONOMY



RISK
ASSESSMENT
COMPLIANCE

regulatory changes, regulatory framework, mega trends (social trends, environmental situation), ...

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 thereupon – for example, by defining and monitoring water districts and preparing water balances to protect water resources and balance their vital flows with the needs of human and civil consumption, Acea checks 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: GENERATION AND NETWORKS

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 68%. 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 opt for smart city solutions, adopting a demand side management and energy efficiency outlook. This is accompanied by resilient grid management, which can be used to support the increased use of electricity, such as for mobility.

C ENERGY SUPPLY CHAIN: COMMERCIAL

Sale of energy and gas: commodities (energy and gas) are purchased via bilateral contracts or exchanges on market platforms (Electronic stock exchange) where Acea Energia supplies itself in order to resupply clients according to its 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. A recent development in the business concerns the creation of innovative services and products, and this is where Acea Innovation comes in.

D ENVIRONMENT SUPPLY CHAIN: CIRCULAR ECONOMY

Efficient use of waste and the circular economy: the environmental supply chain is active inefficiently using waste by reducing waste volumes, 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. The latest developments concern an expansion of the types of material managed in the circular economy circuit (paper, iron, timber, plastics and metals) and the development of technologies and equipment for the treatment of waste according to the proximity principle.

B ENERGY SUPPLY CHAIN: GENERATION AND NETWORKS



STAKEHOLDERS

C ENERGY SUPPLY CHAIN: COMMERCIAL







REPORT
ON OPERATIONS

CORPORATE BODIES

Board of Directors¹

Michaela Castelli	Chairperson
Giuseppe Gola	Chief Executive Office ²
Alessandro Caltagirone	Director
Massimiliano Capece Minutolo del Sasso	Director
Gabriella Chiellino	Director
Diane Galbe	Director
Giovanni Giani	Director
Liliana Godino	Director
Giacomo Larocca	Director

Board of Statutory Auditors

Maurizio Lauri	Chairperson
Pina Murè	Regular Auditor
Maria Francesca Talamonti	Regular Auditor
Maria Federica Izzo	Alternate Auditor
Mario Venezia	Alternate Auditor

Financial Reporting Manager²

Fabio Paris

Auditing Firm

PricewaterhouseCoopers SpA

¹ Appointed by the Shareholders' Meeting on 29 May 2020.

² Appointed by the Board of Directors on 29 May 2020.

SUMMARY OF RESULTS

Income Statement data

€ million	31/12/2020	31/12/2019	Change	Change %
Consolidated revenues	3,379.4	3,186.1	193.3	6.1%
Consolidated operating costs	2,254.6	2,185.3	69.3	3.2%
(Negative) fair value of commodities	0.3	0.1	0.2	N.S.
Income/(expenses) from equity investments of a non-financial nature	30.3	41.4	(11.0)	(26.7%)
EBITDA	1,155.5	1,042.3	113.2	10.9%
EBIT	535.0	523.2	11.8	2.2%
Net profit/(loss)	326.6	307.2	19.4	6.3%
Profit/(loss) attributable to non-controlling interests	41.6	23.5	18.1	77.1%
Net profit/(loss) attributable to the Group	284.9	283.7	1.3	0.4%

EBITDA

€ million	31/12/2020	31/12/2019	Change	Change %
Environment	50.3	52.0	(1.6)	(3.1%)
Commercial and Trading	72.4	69.1	3.3	4.8%
Overseas	25.3	16.9	8.4	49.4%
Water	614.4	505.0	109.4	21.7%
Energy Infrastructure	412.9	392.0	21.0	5.4%
Engineering and Services	14.7	13.0	1.7	13.5%
Corporate	(34.6)	(5.6)	(29.0)	N.S.
Total EBITDA	1,155.5	1,042.3	113.2	10.9%

Financial position data

€ million	31/12/2020	31/12/2019	Change	Change %
Net invested capital	5,851.2	5,169.5	681.7	13.2%
Net financial debt	(3,528.0)	(3,062.8)	(465.1)	15.2%
Consolidated Shareholders' equity	(2,323.3)	(2,106.7)	(216.5)	10.3%

Investments

€ million	31/12/2020	31/12/2019	Change	Change %
Environment	23.6	51.9	(28.3)	(54.6%)
Commercial and Trading	44.1	43.1	1.1	2.5%
Overseas	3.1	7.0	(3.9)	(55.9%)
Water	476.0	380.1	95.9	25.2%
Energy Infrastructure	325.1	287.8	37.4	13.0%
Engineering and Services	6.6	1.8	4.8	N.S.
Corporate	28.5	21.2	7.3	34.5%
Total	907.0	792.8	114.2	14.4%

Net financial debt

€ million	31/12/2020	31/12/2019	Change	Change %
Environment	268.0	256.5	11.5	4.5%
Commercial and Trading	(95.7)	(53.2)	(42.5)	79.8%
Overseas	(9.0)	(4.5)	(4.5)	99.7%
Water	1,483.7	1,286.5	197.2	15.4%
Energy Infrastructure	1,566.7	1,320.5	246.2	18.6%
Engineering and Services	31.1	6.7	24.4	n.s.
Corporate	283.2	250.4	32.8	12.6%
Total	3,528.0	3,062.8	465.1	15.2%

Debt at 31 December 2020: 1) is shown gross of € 14.7 million of receivables relating to IFRIC 12 of Acea SpA; 2) contains € 132.9 million of payables for dividends approved and not yet distributed to Roma Capitale; 3) is shown gross of € 17.4 mil-

lion of payables relating to some acquisitions of equity investments in the photovoltaic sector.

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

DEFINITION OF ALTERNATIVE PERFORMANCE MEASURES

On 5 October 2015, ESMA (European Securities and Markets Authority) published its guidelines (ESMA/2015/1415) on criteria for the presentation of alternative performance measures which replace, as of 3 July 2016, the CESR/05-178b recommendations. These guidelines were transposed into our system with 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 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 the international accounting standards IFRS 10 and IFRS 11 came into force. EBITDA is determined by adding Operating profit/loss (EBIT) 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 two years 2019-2020) net of Non-current financial assets (excluding a part of Acea SpA’s receivables related to IFRIC 12 and securities other than equity investments), Current borrowings and Other current financial liabilities net of Current financial assets (including dividends to pay to Roma Capitale), 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 the current receivables, inventories, the net balance of other current assets and liabilities and current debts, excluding the items considered in calculating the net financial position.

SUMMARY OF RESULTS: ECONOMIC PERFORMANCE

Income Statement data

€ million	31/12/2020	31/12/2019	Change	Change %
Revenue from sales and services	3,205.3	3,021.8	183.5	6.1%
Other revenue and income	174.1	164.3	9.8	6.0%
Costs of materials and overheads	1,986.9	1,936.0	50.9	2.6%
Personnel costs	267.7	249.3	18.4	7.4%
Net income/(costs) from commodity risk management	0.3	0.1	0.2	n.s.
Income/(costs) from equity investments of a non-financial nature	30.3	41.4	(11.0)	(26.7%)
EBITDA	1,155.5	1,042.3	113.2	10.9%
Amortisation, depreciation, provisions and impairment	620.5	519.1	101.4	19.5%
Operating profit/(loss)	535.0	523.2	11.8	2.2%
Financial operations	(88.0)	(95.4)	7.4	(7.8%)
Equity investments	14.2	2.6	11.7	451.1%
Profit/(loss) before tax	461.2	430.4	30.8	7.2%
Income taxes	134.6	123.2	11.4	9.3%
Net profit/(loss)	326.6	307.2	19.4	6.3%
Profit/(loss) attributable to non-controlling interests	41.6	23.5	18.1	77.1%
Net profit/(loss) attributable to the Group	284.9	283.7	1.3	0.4%

Compared to 31 December 2019 the following changes occurred in the consolidation scope:

- on 13 January 2020 Acea International acquired from Impregilo the shares corresponding to 18.5% of the capital of Consorzio Agua Azul, thus reaching a total of 44% and exercising exclusive control over the company, thus consolidating it in full;
- on 28 February 2020 Acea Sun Capital continued its acquisition of photovoltaic systems, taking over 100% of Bersolar, on 7 May 100% of Euroline3, on 27 May 2020 49.9% of the company Energia and on 4 June 100% of the companies IFV Energy and PF Power of Future;
- on 22 April 2020 Acea Ambiente acquired 60% of the companies Ferrocarril and Cavallari, which in turn owns 100% of Multi-green; the companies operate in the provinces of Terni and Ancona performing selection and recovery of paper, iron, timber, plastics and metals and are also active in the management of the separate collection of production and packaging waste as well as in the disposal of waste;
- on 7 May 2020 Acea Elabori acquired SIMAM (Servizi Industriali Manageriali Ambientali), a leading company in the design, construction and management of water and waste treatment plants, in environmental works and reclamation, with integrated solutions featuring high technological content;
- on 15 April 2020 Acea Solar acquired the company Fergas Solar, operating in the field of the development and construction of photovoltaic plants;
- on 19 May 2020, Acea Innovation acquired 100% of the company Electric Drive Italia, a company that promotes the development of electric mobility through advanced IT solutions;
- on 31 July 2020 the company Acea800 was split up and the business unit was divided between the associates Acea Energia, areti and Acea Ato 2;
- on 31 August 2020 Acea SpA acquired 51% of Alto Sangro Distribuzione Gas, a company that holds the gas distribution network in the province of L'Aquila;
- on 16 November 2020 a further 15% of the company S.I.I. (operator of the Integrated Water Service of Terni) was acquired, thus coming to hold a total stake of 40%; following an

amendment to the Shareholders' agreements and starting from that date the company is fully consolidated;

- on 15 December 2020 the company Consorzio Acea was incorporated. This is controlled by Acea Perù (99%) and Acea Ato 2 (1%), and has signed a three-year contract for operation of the water pumping stations in Lima.

With regard instead to 2019, please note that:

- on 18 March Acea acquired 51% of the company Pescara Distribuzione Gas;
- on 30 April 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;
- on 25 June Acea SpA set up the company Acea Innovation, operating in the field of technological innovation;
- on 4 July 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;
- from 7 October, Acquedotto del Fiora is fully consolidated following the amendment of the Shareholders' agreements that allowed Acea to exercise control over the company.

Finally, we can note that the merger by incorporation of the companies Brindisi Solar, Acquaviva, Compagnia Solare 2, Compagnia Solare 3 and SPES into the company Solaria Real Estate was carried out on 27 July 2020. In addition, the merger by incorporation of the companies Luna Energia, Sisine Energia, Urbe Cerig, Urbe Solar and Bersolar into the company KT4 was carried out on 26 October 2020. Both mergers have accounting and fiscal effects backdated to 1 January 2020.

For more details, see the paragraph *Criteria, procedures and consolidation scope*.

The table below shows the main impact of the change in the consolidation scope at 31 December 2020 (gross of intercompany adjustments).

€ million	Consorzio Acqua Azul	Pescara Distribuzione Gas	AdF	Demap	Berg	Photovoltaic	Ferrocarril Cavallari	SIMAM	Alto Sangro Distribuzione Gas	S.I.I.	EDI	Total
Revenues	13.0	1.6	89.6	5.0	5.0	17.2	17.4	13.6	2.4	5.9	0.4	171.1
EBITDA	7.8	0.5	42.4	2.2	1.4	8.5	4.3	5.2	1.7	1.3	0.1	75.3
EBIT	4.5	(0.1)	19.8	1.8	(0.9)	2.6	2.9	3.7	1.3	(0.7)	0.0	34.8
EBIT	5.3	(0.3)	16.5	1.8	(1.0)	1.9	2.8	3.4	1.3	(0.9)	0.0	30.7
NP	3.1	(0.0)	10.4	1.7	(0.6)	2.5	2.2	2.5	0.9	(0.9)	0.0	21.8
NFP	0.7	(0.0)	0.8	1.5	(0.4)	2.3	1.3	1.7	0.4	(0.6)	0.0	7.9

At 31 December 2020 revenues from sales and services came to € 3,205.5 million, up € 183.6 million (+ 6.1%) on those of FY 2019, mainly due to the increase in revenues from the Integrated Water Service (+ € 128.8 million). This change is mainly due to: 1) the full consolidation of AdF for € 87,4 million (up to 7 October 2019 the Company was consolidated with the equity method), 2) Acea Ato 2 (+ € 25,9 million) as a result of the tariff increase determined following ARERA Resolution no. 580/2019/R/idr – MTI-3, which for the year 2020 marks the beginning of the third regulatory period (four-year period 2020-2023) (+ € 62.0 million); this increase was partially offset by the changes introduced by the new tariff cycle which determined the non-recognition of the contractual quality bonus which was therefore zero compared to the same period last year (when it was € 35.8 million); adjustments deriving from pass-through items (electricity, system change costs, etc.) were also down by € 3.0 million.

The following also contributed to the change: 1) the increase in revenues from waste disposal and landfill management (+ € 36.0 million) deriving for € 20.4 million from the change in the consolidation scope, while for the remainder mainly due to higher volumes processed and better tariffs; 2) the increase in revenues from gas sales for € 13.9 million mainly due to Acea Energia (25.4 million scm); 3) the revenues of foreign companies + € 14.9 million due to the full consolidation of Consorzio Acqua Azul, whose contribution amounted to € 12.9 million as well as the improved performance of Acea Perù, which recorded higher revenues for € 5.6 million.

These increases were partially offset by the reduction in revenues from the sale of electricity of € 29.5 million, of which € 21.6 million related to Acea Ambiente as a result of lower revenues from the CIP 6 contribution ended on 31 July 2019 (- € 18.7 million). The remaining change is mainly due to the revision of the value recognised for the mechanism for offsetting arrears (ARERA Resolution no. 100/2020) as well as for the effects deriving from the reduction in the number of customers served in the protected market and the updating of the tariff components for the remuneration of sales established by ARERA Resolution no. 576/2019. The total sale of electricity in the Greater Protection Service was 1,995 GWh, a decrease of 10.1% on an annual compared to the previous year. The sale of electricity on the Free Market amounted to 4,572 GWh for Acea Energia and 479 GWh for Umbria Energy, for a total of 5,051 GWh, with an increase compared to last year of 19.3%, primarily related to the B2B segment.

Other revenues show an increase of € 9.8 million (+ 6.0%) compared to the previous year. The change is mainly due to a number of items of an opposite sign: 1) higher energy grants received by photovoltaic companies of € 12.3 million (mainly following the change in the consolidation scope); these revenues represent the incentive provided by the GSE for energy production from photovoltaic sy-

stems; 2) the improvement in the IFRIC 12 margin of € 2.6 million as result of higher investments; 3) higher operating and capital grants (+ € 2.1 million) mainly deriving from the change in the consolidation scope, in particular AdF had an effect of € 1.7 million, partially offset by the decrease in contributions for EECs of € 2.0 million (related to the reduction in costs), and by the reduction in contingent assets and other revenue for a total of € 4.7 million, determined mainly by the recognition in 2019 of contingent assets of € 16.2 million related to the total cancellation of the administrative sanction imposed by the Italian Anti-Trust Authority notified on 8 January 2019, following the appeal presented by Acea to the Lazio Regional Administrative Court.

External costs increased overall by € 50.9 million (+ 2.6%) compared to 31 December 2019; with the variation due to the following effect of opposite sign:

- lower costs related to the supply of electricity, transport and metering (- € 19.5 million) in line with the trend recorded in revenues;
- higher material purchasing costs (+ € 16.6 million) mainly attributable to Gori (+ € 9.5 million) and Acea Solar (+ € 3.6 million), while the change in the consolidation scope had an effect of € 6.5 million;
- increase in costs for concession fees (+ € 5.2 million) mainly related to AdF for € 3.7 million, to Acea Ato 2 for € 0.8 million and Pescara Distribuzione Gas for € 0.3 million; the consolidation of S.I.I. generated higher costs of € 0.3 million;
- higher costs for services (+ € 35.6 million) which increased by € 43.8 million as a consequence of the change in scope (of which AdF € 23.9 million), and the higher costs of sludge disposal and transport (+ € 5.8 million with the same scope, in particular related to Gori and Acque Industriali), offset in part by the lower costs recorded by Gori (- € 15.9 million) also as a consequence of the transfer of regional works previously chargeable to the Campania Region and reversed to the company;
- greater other costs (+ € 11.5 million), mainly linked to contingent liabilities, in particular Acea Ato 2 (+ € 11.6 million).

The change in external costs was influenced by the change in the scope of consolidation for € 58.0 million, mainly attributable to AdF (€ 30.2 million), SIMAM (€ 5.6 million) and the IWS (€ 3.1 million).

Personnel costs increased by € 18.4 million compared to the previous year (+ 7.4%). The change in the consolidation scope (+ € 22.3 million) was mainly influenced by the full consolidation of AdF, which contributed an increase of € 12.3 million.

The average number of employees was 7,697 and increased by 626 compared to the previous year, mainly due to the effect of the change in the consolidation scope (+ 329).

€ million	31/12/2020	31/12/2019	Change	Change %
Personnel costs including capitalised costs	431.7	399.0	32.7	8.2%
Costs capitalised	(164.0)	(149.7)	(14.3)	9.6%
Personnel costs	267.7	249.3	18.4	7.4%

Income from non-financial equity investments represents the consolidated result according to the equity method included among the components forming the consolidated EBITDA of the

strategic companies. The following table also includes the results of AdF consolidated at equity until 7 October 2019 equal to € 2.6 million.

€ thousand	31/12/2020	31/12/2019	Change	Change %
EBITDA	127.0	144.1	(17.1)	(11.9%)
Amortisation, depreciation, impairment and provisions	(81.6)	(79.6)	(2.1)	2.6%
Financial operations	(3.3)	(8.0)	4.7	(58.8%)
Total profit/(loss) on equity investments	(0.0)	(0.0)	0.0	(13.4%)
Taxes	(11.7)	(15.1)	3.4	(22.6%)
Income from equity investments of a non-financial nature	30.3	41.4	(11.0)	(26.7%)

EBITDA rose from € 1,042.3 million at 31 December 2019 to € 1,155.5 million at 31 December 2020, recording an increase of € 113.2 million or 10.9%. The increase derives from the change in the consolidation scope for € 75.3 million, due mainly to AdF for € 42.4 million, to the new photovoltaic companies for € 8.5 million, to Consorcio Agua Azul for € 7.8 million, to SIMAM for € 5.2 million and to new companies of the environmental area for € 7.9 million.

With the same scope, the growth of EBITDA mainly derived from the tariff dynamics of the water sector (+ € 63.6 million), primarily as a result of the tariff increase determined following ARERA Resolution no. 580/2019/R/ldr – MTI and subsequent amendments, offset in part by the reduction to zero of the effects associated with the commercial quality bonus. This was followed by the increase in margins in the electricity distribution sector (mainly areti for € 26.5 million) deriving from the positive effect of the positive energy balance (+ € 11.7 million) mainly as a consequence of the equalisation effects, the regulatory accounting (+ € 6.0 million) as remuneration of the investments net of depreciation and amortisation, and for the effects associated with the reduction of network losses (+ € 7.6 million). The generation sector shows a decrease in EBITDA of € 6.5 million determined above all by the reduction in the prices on the energy markets, and by the reduction in the volumes produced owing to a drop in the water contributions.

The Environment Area had a negative effect of € 9.5 million, mainly as a consequence of lower revenue related to the CIP 6 which ended on 31 July 2019 (- €19.6 million) offset in part by the increase owing to the higher electricity tariffs for conferment to landfill and higher volumes of compost treated. The Parent Company offset the increase in other sectors with a decrease in EBITDA of € 29.0 million; this change can be attributed to the combined effect of the recognition in 2019 of the contingent asset of € 16.2 million related to cancellation of the administrative sanction imposed by the Italian Anti-Trust Authority to which higher expenses were added for the Covid-19 emergency, the increase in personnel costs (higher number of resources) and the launch of various projects, offset only in part by higher re-invoicing to the Group companies.

EBIT increased by € 11.8 million compared to the previous year. This increase was mitigated by the growth of depreciation and amortisation (+ € 88.7 million compared to FY 2019), attributable mainly to the change in the scope for € 38.2 million (mostly AdF for € 20.8 million), and for the remainder to the increases recorded by areti (+ € 17.6 million), Acea Ato 2 (+ € 22.0 million) and Acea Energia (+ € 7.9 million). Below are details of the items influencing EBIT.

€ million	31/12/2020	31/12/2019	Change	Change %
Amortisation/depreciation of intangible and tangible assets and impairment	498.3	409.6	88.7	21.7%
Impairment of receivables	79.4	61.7	17.7	28.8%
Provision for risks and charges	42.8	47.8	(5.0)	(10.5%)
Amortisation, depreciation, impairment and provisions	620.5	519.1	101.4	19.5%

The increase in depreciation and amortisation is associated, net of the changes in the scope, mainly with investments in the period in all business areas and also took into account the developments connected with the technological platform common to the Acea Group. Areti contributed to the increase, in addition, also due to the acceleration of depreciation (started at year-end 2019) of first-generation electrical meters, according to the swap plan, related to the installation of second generation meters.

The increase in the item "Impairment of receivables" is mainly attributable to areti (+ € 13.2 million) which in 2019 benefited from the positive effects following Resolution 568/2019/R/eel which provided for the recovery of the portion related to the network tariffs.

Provisions for risks decreased by € 5.0 million referable to Acea Ato 5 (- € 4.2 million) and areti (- € 2.4 million), in part offset by the increase of Acea Ato 2 (+ € 2.4 million).

Net gains/losses from financial operations showed net expenses of € 88.0 million down by € 7.4 million compared to FY 2019. This

change was related in a positive way to the recognition of income of € 14.2 million as a result of the closure of the Business Combinations, as provided for in the accounting standard IFRS 3, and was partly due to operations that were accounted for according to the acquisition method. This change was offset, instead, by the change in the consolidation scope for € 4.4 million as an increase in net expenses, mainly due to the consolidation of AdF which had an effect of € 3.3 million, and the increase in the Group's debt; we can inform you that the "all-in" total average cost of the Acea Group's debt came out at 1.74% compared to 2.15% in the previous year.

The estimate of fiscal charges amounted to € 134.6 million, compared to € 123.2 million in the previous year. The overall increase of € 11.4 million was mainly due to the higher pre-tax profit. The tax rate for 31 December 2020 was 29.2% (28.6% at 31 December 2019).

The net profit attributable to the Group was € 284.9 million, and showed an increase of € 1.3 million compared to the previous year.

SUMMARY OF RESULTS: TRENDS IN FINANCIAL POSITION AND CASH FLOWS

Financial position data

€ million	31/12/2020	31/12/2019	Change	Change %
NON-CURRENT ASSETS AND LIABILITIES	6,602.2	5,825.8	776.4	13.3%
NET WORKING CAPITAL	(750.9)	(656.2)	(94.7)	14.4%
INVESTED CAPITAL	5,851.2	5,169.5	681.7	13.2%
NET FINANCIAL DEBT	(3,528.0)	(3,062.8)	(465.1)	15.2%
Total Shareholders' equity	(2,323.3)	(2,106.7)	(216.5)	10.3%
Total sources of financing	5,851.2	5,169.5	681.7	13.2%

Non-current assets and liabilities

Non-current assets and liabilities increased by € 776.4 million (+

13.3% from the previous year) compared to 31 December 2019, mainly due to the increase in fixed assets (+ € 670.3 million).

€ million	31/12/2020	31/12/2019	Change	Change %
Tangible/intangible fixed assets	6,235.4	5,565.1	670.3	12.0%
Equity investments	279.5	270.8	8.7	3.2%
Other non-current assets	772.1	637.0	135.1	21.2%
Employee severance indemnity and other defined-benefit plans	(122.0)	(104.6)	(17.4)	16.7%
Provisions for risks and charges	(157.0)	(151.4)	(5.5)	3.7%
Other non-current liabilities	(405.8)	(391.1)	(14.7)	3.8%
Non-current assets and liabilities	6,602.2	5,825.8	776.4	13.3%

The change in intangible fixed assets was mainly due to investments, which reached € 907.0 million, and amortisations and impairment, totalling € 498.3 million.

See the following table as regards the investments made in each operating segment.

Investments

€ million	31/12/2020	31/12/2019	Change	Change %
ENVIRONMENT	23.6	51.9	(28.3)	(54.6%)
COMMERCIAL AND TRADING	44.1	43.1	1.1	2.5%
OVERSEAS	3.1	7.0	(3.9)	(55.9%)
WATER	476.0	380.1	95.9	25.2%
Energy Infrastructure	325.1	287.8	37.4	13.0%
Engineering and Services	6.6	1.8	4.8	n.s.
Corporate	28.5	21.2	7.3	34.5%
Total	907.0	792.8	114.2	14.4%

The Environment Segment made investments of € 23.6 million and compared to 31 December 2019 they decreased by € 28.3 million. They refer mainly to the investments made by Acea Ambiente for works carried out at the San Vittore plants for the revamping of the 4th line, the Aprilia plants and for works at the landfill in Orvieto. The reduction was due mainly to the lower investments of Acea Ambiente compared to the previous year in which investments were made for the revamping of the Monterotondo (€ 17.9 million) and Aprilia (€ 19.9 million) plants. The change in the scope contributed to investments with an increase of € 1.9 million.

The Commercial and Trading Segment recorded investments of € 44.1 million, in line with the previous year and these mainly related for € 24.8 million to the cost of acquiring new customers in accordance with IFRS 15, for € 13.6 million to IT implementation projects and for € 4.0 million were related to cloud licences on which the new Customer Relationship Management is being designed.

The Overseas Segment showed a decrease of € 3.9 million, mainly due to the company Aguas de San Pedro.

The Water Segment invested a total of € 476.0 million, an increase compared to 31 December 2019 of € 95.9 million, due to higher investments by Acea Ato 2 (+ € 54.3 million) and the consolidation of AdF (+ € 26.2 million); there were higher investments for Gori (+ € 6.5 million) and Acea Ato 5 (+ € 3.5 million). The investments of the Segment refer mainly to extraordinary maintenance work, reconstruction, modernisation and expansion of plants and networks, the reclamation and expansion of water and sewer pipes of the various Municipalities and work on purification and transport plants (ducts and feeders).

The Energy Infrastructure and Energy Segment recorded an increase in investments of € 37.4 million referable substantially to areti (€ 16.9 million) and Acea Solar (€ 15.5 million). Investments by areti refer mainly to the expansion and upgrading of the HV,

MV and LV grids, work on the primary stations, secondary substations and meters, metering groups and remote control equipment with a view to improving service quality and increasing resilience. Intangible investments refer to projects for the re-engineering of information and commercial systems. The investments made by Acea Produzione regard mainly the extraordinary maintenance work of the Tor di Valle and Montemartini thermal power stations, the requalification work on the substations of the Salisano and Orte Power Stations and the extension and restoration of the district heating network in the territory of Mezzocammino in the south of Rome. The investments made by Acea Solar refer to the construction of photovoltaic plants on both agricultural and industrial soils.

The Engineering and Services Segment recorded investments of € 6.6 million (+ € 4.8 million) mainly due to the purchase of industrial and commercial equipment by Acea Elabori (€ 4.2 million). The change in the consolidation scope of SIMAM for € 2.4 million contributed to this.

The Corporate Segment made an increase in investments of € 28.5 million up compared to 31 December 2019 (+ € 7.3 million) which related mainly to IT developments and to investments on the offices used for the corporate activities.

Group investments concerning shared IT infrastructure totalled € 50.8 million.

Equity investments and equity securities that do not constitute

control, association or joint control, increased by € 8.7 million compared to 31 December 2019. The change was determined by phenomena of the opposite sign. Among these we can note for equity investments in non-consolidated subsidiaries and associates (+ € 8.3 million):

- the measurement of consolidated companies using the equity method for + € 30.6 million;
- change in the consolidation scope of € 7.9 million due to the consolidation at equity of EnergiaSpA (+ € 24.5 million) partially offset by the full consolidation of Consorzio Agua Azul (- € 8.0 million) and S.I.I. (- € 8.6 million), which were previously consolidated at equity;
- other decreases of € 30.2 million, mainly related to dividend distribution.

The stock of **employee severance indemnity and other defined benefit plans** reported an increase of € 17.4 million, mainly due to the effect of the change in the consolidation scope (+ € 2.9 million) offset in part by the drop in the rate used (from 0.77% at 31 December 2019 to 0.35% at 31 December 2020).

Provisions for risks and charges increased by 3.7% compared to the previous year. The details by nature of the provisions are presented below. We can note that following the consolidation of S.I.I. the provisional effects of the Business Combination generated a difference of € 3.5 million while awaiting closure of the Purchase Price Allocation.

€ million	31/12/2019	Uses	Provisions	Release for excess provisions	Reclassifications/ other changes	31/12/2020
Legal	16.2	(2.2)	2.8	(0.6)	(0.1)	16.2
Taxes	9.3	(0.4)	0.6	(0.2)	(0.1)	9.2
Regulatory risks	27.6	(5.7)	5.5	(0.1)	0.1	27.4
Investees	7.5	0.0	0.0	(0.2)	3.0	10.3
Contributory risks	1.4	(0.3)	0.0	(0.1)	0.1	1.1
Insurance deductibles	10.3	(2.5)	2.8	0.0	0.4	11.0
Other risks and charges	25.2	(6.4)	8.1	(5.7)	2.4	23.7
Total provision for risks	97.5	(17.5)	19.9	(6.7)	5.7	98.9
Early retirements And redundancies	29.1	(22.1)	28.0	(0.1)	(3.1)	31.8
Post mortem	17.1	0.0	0.0	0.0	0.5	17.6
Provisions for settlement charges	0.1	(0.1)	0.0	0.0	0.0	0.0
Provision for charges payable to others	7.6	(0.5)	1.8	(0.1)	0.0	8.7
Total provisions for charges	53.9	(22.8)	29.8	(0.2)	(2.7)	58.1
Total provision for risks and charges	151.4	(40.3)	49.7	(6.9)	3.1	157.0

Net working capital

The change in **net working capital** compared to 31 December 2019 is attributable mainly to an increase in other current liabilities of € 90.3 million), current debts of € 26.9 million and to a decrease in

current receivables of € 54.0 million, partially offset by an increase in other current assets (+ € 41.8 million) and by inventories (+ € 34.6 million).

€ million	31/12/2020	31/12/2019	Change
Current receivables	981.5	1,035.5	(54.0)
of which end users/customers	934.2	935.1	(0.9)
of which Roma Capitale	38.7	86.7	(48.0)
Inventories	92.0	57.3	34.6
Other current assets	267.1	225.3	41.8

(follows)

€ million	31/12/2020	31/12/2019	Change
Current payables	(1,627.1)	(1,600.3)	(26.9)
of which Suppliers	(1,535.1)	(1,472.8)	(62.3)
of which Roma Capitale	(87.6)	(121.7)	34.0
Other current liabilities	(464.4)	(374.1)	(90.3)
Net working capital	(750.9)	(656.2)	(94.7)

Receivables from users and customers, net of provisions for the impairment of receivables € 640.0 million (€ 651.5 million at the end of 2019), fell compared to 31 December 2019 by € 0.9 million; we can note: 1) a reduction in receivables of Area Idrico of € 6.2 million mainly referable to Acea Ato 2 (- € 39.5 million) and Gori (- € 11.8 million) partially offset by the consolidation of S.I.I. (+ € 31.5 million); 2) a decrease in receivables of the Infrastructures Segment of € 3.5 million mainly regarding areti (- € 6.8 million) offset in part by Solaria Real Estate (+ € 4.9 million); 3) the Engineering and Services Segment recorded an increase in receivables of € 5.4 million deriving from the acquisition of SIMAM for € 5.6 million; 4) also overseas operations increased the amount of receivables by € 1.6 million mainly following the full consolidation of Consorcio Agua Azul for € 0.9 million and Consorcio Acea for € 0.5 million; 5) a decrease in receivables of the Environment Segment of € 2.2 million, deriving mainly from a reduction in receivables of Acea Ambiente (- € 9.8 million) and Bioecologia (- € 1.0 million) partially offset by the consolidation of the new acquisitions Cavallari, Ferrocarril and Multigreen (+ € 8.8 million); vi) an increase in receivables of the Commercial and Trading Segment of € 3.9 million mainly attributable to Umbria Energy (+ € 5.4 million) offset in part by Acea Energia (- € 1.5 million).

The decrease in provisions for the impairment of receivables was also due to the effects of the sale of non-performing receivables amounting to € 76.1 million at 31 December 2020. Receivables totalling € 1,267.6 million were transferred without recourse during 2020, of which € 185.7 million to the Public Administration. As regards **relations with Roma Capitale**, the net balance at 31 December 2020 was € 28.6 million payable by the Group, compared to the previous balance of € 33.7 million at 31 December 2019. The 2020 balance was mainly due to the recognition of share dividends related to financial year 2019 recorded in May (€ 86.7 million).

The change in receivables and payables was due to the accrual of the period and the effects of operations associated with offsets and collections, summarised below:

- February 2020: receivables of € 10.5 million relating to the Public Lighting service, 2018 fees and 2016-2018 pro-rata amounts were offset with Acea's share dividends for the year 2018;
- March 2020: receivables for € 20.4 million relating to water services for the years 2017-2018 offset by the Acea Ato 2 concession fee;
- June 2020: receivables for € 2.1 million relating to water services referred to drinking fountains (years 2015-2018) were offset by the Acea Ato 2 concession fee;
- September 2020: receivables of € 22.8 million relating to the Public Lighting service for 2019 fees and pro-rata amounts were offset with Acea's share dividends for the year 2018;
- September 2020: receivables for € 15.6 million relating to water services for the year 2019 were offset by the Acea Ato 2 concession fee;
- November 2020: collection of € 0.4 million for receivables of various kinds referred mainly to Acea;

- December 2020: receivables of € 21.4 million relating to water services for the year 2019 offset by the Acea Ato 2 concession fee;
- December 2020: collection of € 32.0 million for water user receivables related to year 2020.

During the period the stock of trade receivables recorded a reduction of € 48.0 million compared to 2019 due mainly to offsets and collections (€ 91.5 million) as detailed above and to accrual at the same time of invoices to users in the period (€ 43.3 million). Financial receivables increased by € 5.9 million compared to the previous period, to be attributed to the combined effect of: 1) offsetting of financial receivables in February and September (as noted above), and 2) accrual of receivables related 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.

As regards payables, in the period there was an increase of € 20.1 million. The main changes are listed below:

- recognition of the payable for Acea's share dividends accrued in 2019 of € 84.7 million, as resolved by the Shareholders' Meeting in May 2020;
- inclusion of the payable for Acea Ato 2 share dividends accrued in 2019 equal to € 2.0 million;
- recognition of the portion accrued in the period for the concession fee of Acea Ato 2 for € 25.3 million;
- reduction to zero of the Acea Ato 2 concession fee for 2016 due to offsets for the period for € 21.7 million;
- decrease in the payable for Acea's share dividends for 2018 of € 33.3 million following the payment made through offsetting in February;
- decrease in the Acea Ato 2 concession fee for 2017 of € 16.3 million and for 2018 of € 21.4 million following payment through offsets.

We can also inform you that in January 2021 the Acea Ato 2 concession fee was paid for a total of € 33.4 million thus paying off the payable position that had accrued in 2017 and 2019.

As described in the Consolidated Financial Statements at 31 December 2019 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 (SIMU) 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 completely rejected by the Group.

In order to arrive at a complete Resolution of the differences during 2019 a specific Joint Technical Committee was set up with the Acea Group.

Following several meetings, on 18 October 2019, the Joint Techni-

cal 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 2020 at total of € 33.3 million of receivables referred to the aforementioned Report were settled.

We can inform you finally that, as regards the Public Lighting service, following the opinion given by the AGCM (Antitrust Authority) in Bulletin no. 49 of 14 December 2020, Roma Capitale began checking the conditions of congruity and economic convenience of the performance terms pursuant to the service contract between the Administration and Acea SpA (and through it areti) compared with the terms pursuant to the CONSIP – Luce 3 Convention and, in addition, on the basis of the positions expressed by the AGCM in the said opinion, expressed queries over the legitimacy of the award to Acea SpA. On 8 February 2021, with a note ref. DG 1585/2021, Roma Capitale communi-

cated the results of the said checks, affirming definitively “the congruity and convenience of the economic terms currently in being with respect to the qualitative and economic parameters of the CONSIP – Luce 3 Convention” and confirming “the correctness of the prices applied for the Public Lighting service”, overcoming definitively all reserves on the congruity of the prices charged in the context of the contractual relationship in being between Roma Capitale and Acea SpA. In the same note, the Administration therefore ordered the restart of the procedures for payment of Acea’s ascertained receivables in relation to the service contract. We can note that the said communication regards the correctness of the prices charged, without affecting the Administration’s intention, already manifested, to terminate the relationship with Acea to call for tenders and thus make a new award for the Public Lighting service.

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.

Receivables due from Roma Capitale			
€ million	31/12/2020	31/12/2019	Change
Utility receivables	42.0	90.6	(48.5)
Provisions for impairment	(9.3)	(9.3)	(0.0)
Total receivables from users	32.7	81.2	(48.5)
Receivables for water works and services	2.3	2.5	(0.2)
Receivables for water works and services to be invoiced	1.8	1.5	0.4
Contributions	0.0	0.0	0.0
Provisions for impairment	(1.9)	(1.9)	0.0
Receivables for electrical works and services	4.1	3.8	0.3
Receivables works and services – to be billed	0.0	0.0	0.0
Provisions for impairment	(0.3)	(0.3)	0.0
Total receivables for works	6.0	5.5	0.5
Total trade receivables	38.7	86.8	(48.0)
Financial receivables for Public Lighting service – billed	129.3	138.8	(9.5)
Provisions for impairment	(30.2)	(30.2)	0.0
Financial receivables for Public Lighting service – to be billed	65.0	39.2	25.8
Provisions for impairment	(22.0)	(15.0)	(7.0)
M/L term financial receivables for Public Lighting service	11.8	15.2	(3.5)
Total Public Lighting receivables	154.0	148.2	5.9
Total receivables	192.7	234.9	(42.2)
<hr/>			
Payables due to Roma Capitale			
€ million	31/12/2020	31/12/2019	Change
Electricity surtax payable	(15.2)	(15.3)	0.0
Concession fees payable	(62.2)	(96.4)	34.2
Other payables	(11.0)	(10.1)	(0.9)
Dividend payables	(132.9)	(79.5)	(53.4)
Total payables	(221.3)	(201.2)	(20.1)
Net balance receivables payables	(28.6)	33.7	(62.3)

Current payables rose due to the increase in the stock of trade payables (+ € 62.3 million). This effect was recorded in particular with reference to payables of Acea Energia (- € 48.5 million).

Other current assets and liabilities recorded an increase of € 41.8 million (of which € 6.9 million for change in scope) and € 90.3 million (of which € 6.1 million for change in scope) compared to last year. In detail other assets rose as a result of the increase in tax receivables of € 4.9 million, in receivables for energy equalisation of € 5.8 million and in receivables from the OTAA of € 16.0 million deriving from the consolidation of S.I.I.

As regards the increase in other current liabilities we can note an increase in payables to municipalities of € 11.1 million, in accrued expenses and deferred income of € 27.6 million as a consequence mainly of the consolidation of S.I.I. and SIMAM and in tax payables of € 26.7 million owing to higher IRES payables.

Shareholders' equity

The **Shareholders' equity** amounted to € 2,323.3 million. The changes, amounting to € 216.5 million, are detailed in the relevant table and are basically due to the distribution of dividends, the accrual of 2020 profits, and the change in the cash flow hedge reserves and those formed by actuarial profits and losses as well as the change in the consolidation scope.

Net financial debt

Group debt recorded an overall increase of € 465.1 million, going from € 3,062.8 million at the end of 2019 to € 3,528 million at 31 December 2020. This change is the direct consequence of investments, the trends in operating cash flow and the change in scope (+ € 27.2 million). In addition, the effect related to the Covid-19 emergency contributed to an increase in debt, resulting in a delay of collections from customers and a postponement of collections related to regulatory items.

€ million	31/12/2020	31/12/2019	Change	Change %
Non-current financial assets/(liabilities)	2.9	2.4	0.5	23.2%
Parent company, subsidiaries and associates current financial assets/(liabilities)	21.2	26.2	(5.0)	(19.2%)
Non-current borrowings and financial liabilities	(4,154.3)	(3,551.9)	(602.4)	17.0%
Net medium/long-term debt	(4,130.2)	(3,523.4)	(606.8)	17.2%
Cash and cash equivalents and securities	642.2	835.7	(193.5)	(23.2%)
Short-term debt	(224.0)	(541.9)	317.9	(58.7%)
Current financial assets/(liabilities)	173.0	111.5	61.5	55.1%
Parent Company and associates non-current financial assets/(liabilities)	11.1	55.3	(44.2)	(80.0%)
Short-term financial position	602.2	460.5	141.7	30.8%
Total net financial position	(3,528.0)	(3,062.8)	(465.1)	15.2%

As regards the **medium/long-term** component, the increase of € 606.8 million compared to the end of 2019 refers to the increase in non-current payables and financial liabilities (+ € 602.4 million). This change derives from an increase in bond loans of €

499.1 million and an increase in payables for medium/long-term loans of € 103.2 million (of which € 59.3 million owing to IFRS 16), as shown in the following table:

€ million	31/12/2020	31/12/2019	Change	Change %
Bonds	3,253.4	2,754.3	499.1	18.1%
Medium/long-term borrowings	900.8	797.6	103.2	12.9%
Medium/long-term debt	4,154.3	3,551.9	602.4	17.0%

Bonds of € 3,253.4 million increased by a total of € 499.1 million mainly due to the placement of the bond issued in January 2020 by the Parent Company under the Euro Medium Term Notes (EMTN) programme. The amount of € 495.3 million includes the long-term portion of the arrangement costs.

Medium/long-term loans of € 900.8 million recorded a total increase of € 103.2 million due to the Parent Company (+ € 39.0 million) which entered into a new loan of € 100.0 million (net of

the long-term portion of arrangement costs) offset by the reclassifications as short-term of the principal instalments of the other loans, to Gori (+ € 42.0 million) which obtained during 2020 another two disbursements of the loan entered into in 2019 and for € 44.9 million to the change in the consolidation scope offset for € 32.1 million by the reduction of areti. The following table shows medium/long-term and short-term borrowings (excluding the portion due to application of IFRS 16) by term to maturity and type of interest rate:

Financing	Total residual debt	By 31/12/2021	From 31/12/2021 to 31/12/2025	After 31/12/2025
€ million				
fixed rate	315.2	29.8	221.1	64.3
floating rate	442.9	62.5	196.9	183.4
floating rate in cash flow hedges	195.4	19.7	57.3	118.4
Total	953.6	112.1	475.3	366.1

The **fair value** of Acea hedging derivatives was a negative € 0.3 million, decreasing by € 0.7 million compared to 31 December 2019 (a negative € 1.0 million). The fair value of AdF hedging derivatives was a negative € 4.4 million (at 31 December 2019 it was a negative € 4.1 million), while that of Gori was a negative € 1.6 million.

The short-term component was a positive € 602.2 million and, compared to the end of 2019, shows an increase of € 141.7 million, generated for € 97.4 million by the Parent Company and for € 32.6 million by Gori. The expansion of the consolidation scope contributed to the change for € 9.4 million.

At 31 December 2020 the Parent Company had unused committed credit lines of € 500.0 million, uncommitted lines of € 558.0 million of which € 140.0 million used, as well as unused and available medium/long term loan lines of € 250.0 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

PERFORMANCE OF THE EQUITY MARKETS AND THE ACEA STOCK

2020 was a year marked, at the global level, by the significant “health emergency” caused by the spread of Covid-19 which led to the deepest economic recession since the second world war. In this context, the international equity markets recorded divergent trends.

After the gains of the first weeks of the year, stock markets all over the world recorded sharp losses, above all in March and April, owing mainly to the effects of the lockdowns decided by the various countries to limit the pandemic. These drops were partially recove-

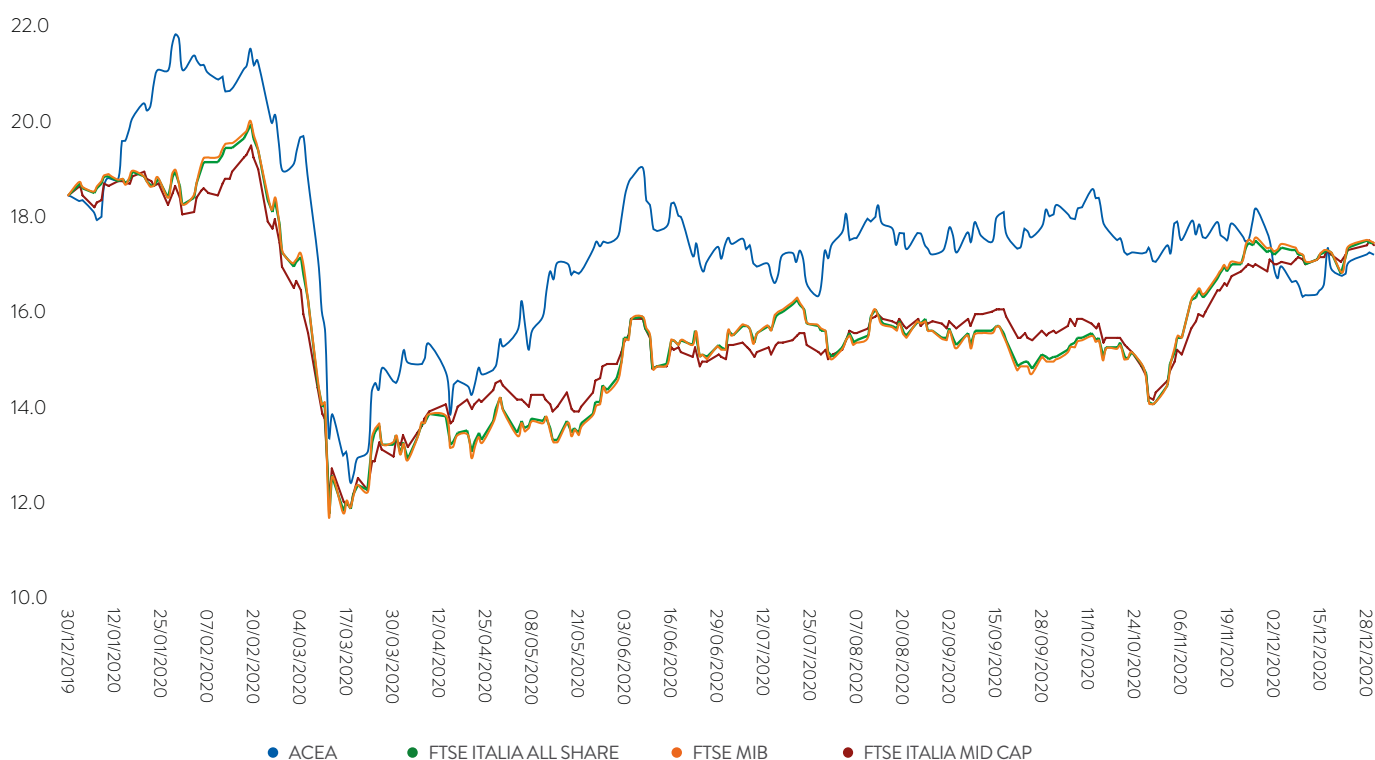
red, in the last months of 2020, thanks to the supporting actions resolved by the Governments and Central Banks and to the first vaccines against Covid-19 being made available.

The performance was positive overall for the US and Asian indices. The European stock markets went in the opposite direction and, with the exception of Frankfurt, recorded a negative trend.

Acea showed performance substantially in line with the Italian market, recording a drop of 7%. The stock recorded on 30 December (last day of opening of the market in 2020) a closing price of € 17.15 (capitalisation: € 3,652.3 million). The maximum value of € 21.8 was reached on 29 January, while the minimum value of € 12.4 was reached on 18 March. During 2020, the daily average volumes were approximately 165,000, slightly higher than in 2019.



The following normalised graph shows the performance of the Acea stock, compared to Stock Market indices.



(Chart normalised to Acea values – Source: Bloomberg)

Change % at 31/12/2020 (compared to 31/12/2019)

Acea	-7.0%
FTSE Italia All Share	-5.6%
FTSE Mib	-5.4%
FTSE Italia Mid Cap	-5.8%

During 2020 Acea took part in numerous events (meetings, expanded presentations, Utilities Conferences, roadshows and reverse roadshows) with approximately 220 equity investors, buy-side analysts, credit investors and analysts. In consideration of the serious “Covid-19” pandemic which spread at the global level, most of the communication events were held in “virtual” mode.

In addition conference calls with the financial community were organised, also on the occasion of approval of the annual and interim results and of the 2020-2024 Business Plan, and more than 240 analysts/investors took part in these.

In 2020 around 160 studies/notes on the Acea stock were published. Seven brokers analyse the Acea stock with the greatest continuity, of which six express “positive” judgements and the other a “neutral” one.

ENERGY MARKET

In Italy during 2020 cumulative electricity demand (302,751 GWh) decreased by -5.3% compared to the same period of the previous year. The reduction was concentrated in the period

March-July 2020, particularly in April, and derived largely from the effects of the Covid-19 health emergency.

Electricity demand in Italy in December 2020 was 25,944 billion GWh, up compared to the same month in 2019 (+1.1%). This figure was obtained due to an extra working day (21 v. 20) and a lower average monthly temperature compared to December of the previous year (-1%). The seasonally adjusted figure corrected for calendar and temperature effects brings the variation to -0.6%.

At the territorial level the annual change was negative everywhere: -6.3% in the North, -5.0% in the Centre, -4.1% in the islands and -3.2% in the South. In monthly terms, the seasonally-adjusted figure corrected for calendar and temperature effects of electricity demand in December 2020 showed an increase (+0.3%) compared to the previous month.

89.4% of electricity requirements were covered by net national (Italian) production and the remaining share was covered by imports from abroad (balance of imports down by 15.6% compared to the same period of the last year).

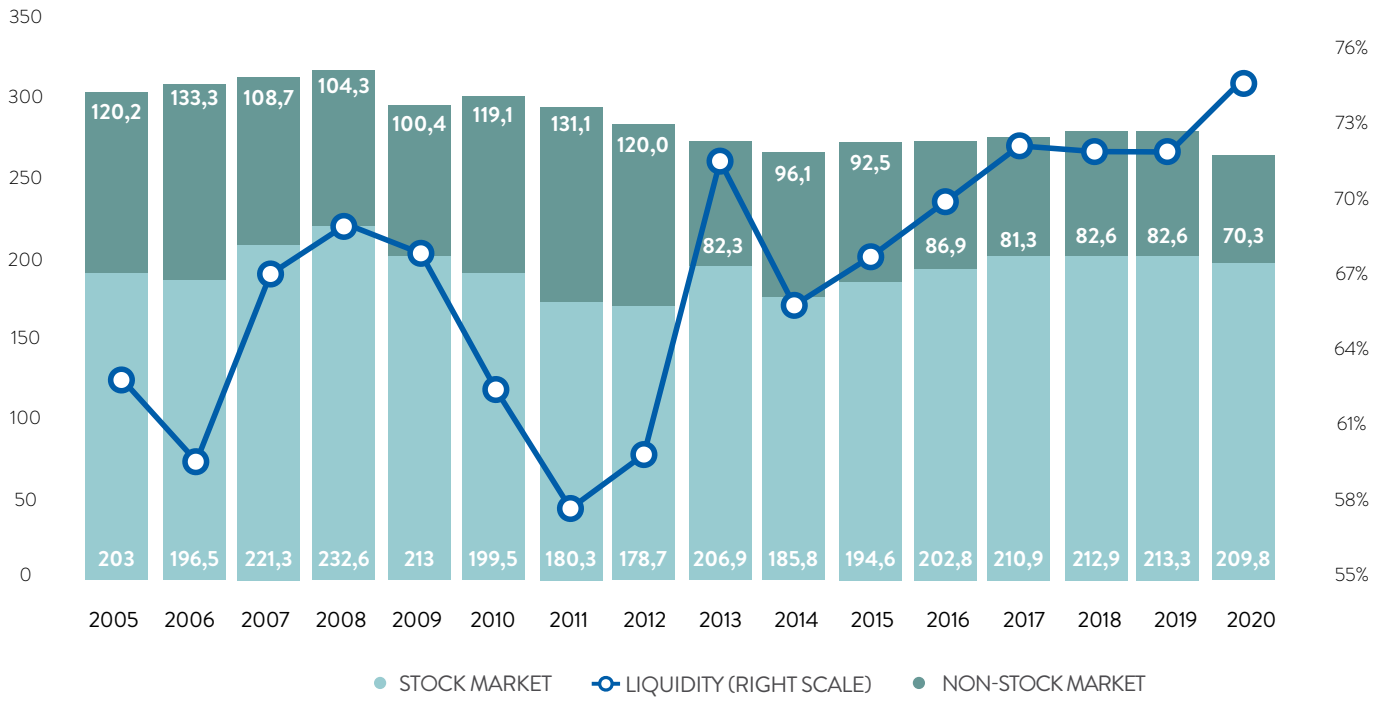
The net national production (273,108 GWh) showed a decrease of 3.8% compared to the same period in 2019. Specifically, energy produced by wind (-7.4%), energy produced by thermal sources (-6.4%) and energy produced by geothermal sources (-0.8%)

decreased, while energy produced by photovoltaic sources (+9.6%) and energy produced by water (+0.8%) increased. With regard to the results of the Italian electric power market, volumes traded on the Day Ahead Market continued to record a significant decrease on an annual basis (-5.5%), falling to 280.2 TWh. Volumes traded on the power exchange decreased by 1.9% to

209.8 TWh, while volumes traded over the counter, recorded on the PCE and nominated on the DAM, decreased to 70.3 TWh (-15.0%).

As a result, market liquidity stood at 74.9%, increasing by 2.8% over 2019.

LIQUIDITY ON THE DAM³



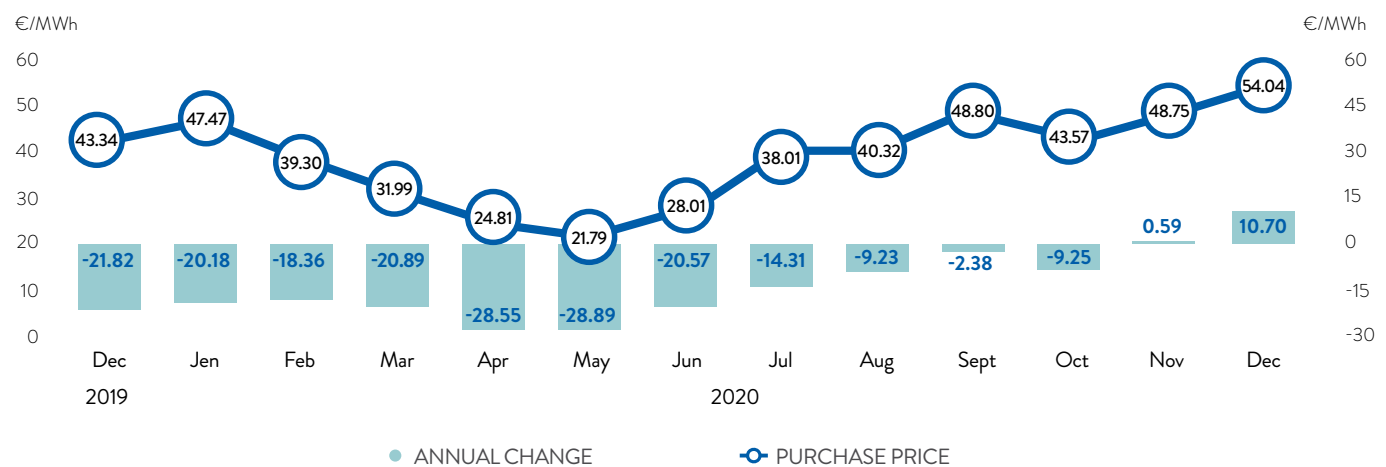
During 2020, the average energy purchase price (SNP) recorded an average of 38.92 €/MWh, a record low, down compared to 2019 by -25.6%.

(-26.9%) and in peak hours, where there was a decrease of - € 14.01/MWh (-23.7%). Prices stood at € 35.61/MWh and € 45.11/MWh respectively.

An analysis of hourly segments showed a downward trend both in off-peak hours, where there was a decrease of - € 13.12/MWh

The peak/baseload price ratio was 1.16 (+0.03 compared to 2019).

DAM: SINGLE NATIONAL PRICE (SNP)³



³ Source: GME Newsletter, December 2020.

Zone sales prices ranged from 46.21 €/MWh in Sicily to 37.79 €/MWh in the North. An annual reduction was observed on all zones. Domestic purchases totalled 271.6 TWh, and decreased on an annual basis (-6.3%). An analysis by zone shows purchases down annually over the whole country, in particular in the North (-7.2%), the Centre North (-6.9%), Sardinia (-5.9%), the Centre South (-4.4%) the South (-4.4%) and Sicily (-4.4%). Purchases of energy in foreign areas (exports), amounting to

8.6 TWh, increased compared to the previous year (+26.2%). Sales of electricity produced nationally reached 238.3 TWh, a decrease compared to a year ago (-5.2%). An analysis by zone shows reductions ranging between the volumes of the Central South (-17.4%) and the volumes of the North (-2.3%).

Energy sales in foreign areas (imports) fell compared to 2019, down to 41.9 TWh (-7.4%).

DAM: SELLING PRICES⁴



TARIFFS FOR TRANSPORT SERVICES

2020 was the fifth 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 regulations are included in three Integrated Texts: “Integrated Text of provisions of the Authority for providing electricity transmission and distribution services (TIT)”, annex A to Resolution 568/2019/R/eel, the “Integrated Text of provisions of the Authority for providing the electricity metering service (TIME)”; annex B to Resolution 568/2019/R/eel, and the “Integrated Text on provisions of the Authority on the economic conditions for providing connection services (TIC)”, annex C to Resolution 568/2019/R/eel, published on 27 December 2019.

For the distribution service, ARERA confirmed unbundling of the tariff applied to end customers (the so-called “compulsory tariff”) from the reference tariff for determination of the constraint on revenue permitted to each company (the reference tariff). The compulsory tariffs for the year 2020 were published with Resolution 568/2019/R/eel on 27 December 2019.

In view of the Covid-19 emergency, on 28 May 2020 ARERA published Resolution 190/2020/R/eel containing urgent actions necessary to implement the provisions of the Italian Relaunch Decree on the reduction of expenditures incurred by low voltage

electricity user accounts other than domestic users for the months of May, June and July 2020.

Subsequently, on 4 August 2020, with Resolution 311/2020/R/eel the Authority gave instructions to the Energy and Environmental Services Fund (Cassa per i Servizi Energetici e Ambientali – CSEA) in relation to management of the resources paid into the Covid-19 Emergency Account under the terms of the Relaunch Law Decree and to the activation of compensation to be paid to distributor companies for the lower receipts deriving from the provisions of Resolution 190/2020/R/eel.

On 1 October the data for calculating the compensation paid financially on 29 October 2020 were sent to the CSEA for an amount of € 12.6 M.

The regulations in force in the previous regulatory sub-period include:

- regulatory lag and return on invested capital;
- extension of regulatory useful life;
- tariff adjustment criteria: distribution, sale, measurement.

With regard to the first point, ARERA confirmed the method for offsetting the regulatory lag, recognising new investments made for both Distribution and measurement (without backdating).

The criterion based on the increase in the remuneration rate of invested capital recognised for new investments, of 1% (of the year t-2) was replaced by the introduction of recognition in the capital base (so-called “RAB”) also of investments made in the year t-1,

⁴ Source: GME Newsletter, December 2020.

measured on the basis of pre-final data communicated to ARERA. These data were used for the determination of the provisional tariffs of reference published in Resolution 162/2020/R/eel on 12 May 2020 and will then be replaced by the final data for the determination of the definitive tariffs of reference published by February of the following year.

On 28 April 2020 ARERA published Resolution 144/2020/R/eel with which it determined the definitive tariffs of reference for distribution and metering services for the year 2019.

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 depreciation rates (which are still recognised in the year $t-2$).

In the new sub-period, ARERA confirmed the previously established regulatory useful life.

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.

With Resolution 380/2020/R/com of 13 October 2020, ARERA launched a proceeding to update the criteria for determining and updating the WACC for the WACC regulatory period that begins on 1 January 2022 (the PWACC).

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. 568/2019, 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 portion of the tariff covering operating costs will be updated using the price cap mechanism (with a productivity recovery target of 1.3%);
- the part covering the costs concerning the remuneration of the invested capital will 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 covering the depreciation will 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.

ARERA confirms for 2020 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.

In Resolution 568/2019, ARERA allows the distribution companies concerned to submit an application by 30 September 2020 to request the single payment of the highest amount due with regard to the entire residual duration of the incentive.

For *areti*, which did not adopt the aforementioned mechanism, Resolution 379/2020/R/eel of 13 October 2020 recognised the incentivised investments made in the years 2014-2015 for the tariff years 2016-2018 of € 0.7 million.

As regards marketing, ARERA confirmed 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 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.

With Resolution 568/2019, ARERA established that the equalisation of the revenues from distribution would be reduced by an amount equal to 50% of the net revenues from the use of the electrical infrastructure for purposes additional to the electric service, recorded at the end of year $n-2$.

The equalisation of the transmission costs has the objective of making passing for the distributor the cost recognised to Terna.

With Resolution 568/2019, by 31 July 2020 distribution companies are required to communicate to CSEA the information relating to the number of operations of increase or reduction of committed power requested by domestic customers connected to their grids. In this regard, on 9 June 2020 the Authority published Determination 10/2020-DIEU with which it establishes that this equalisation will be managed by CSEA with a single collection of data for the entire three-year period with the same phases and timing envisaged in the general equalisation of the year 2019.

On 19 December 2019, 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.

With regard to the procedure initiated with Resolution 677/2018/R/eel on the finalisation of the regulation of losses on distribution networks for the three-year period 2019-2021, on 9 June ARERA published consultation document 209/2020/R/eel. *Arete* communicated its observations within the terms established (10 July 2020). This document envisages:

- the updating of the conventional percentage factors for commercial losses to be applied to distribution companies for equalisation for the aforementioned three-year period and consequently the revision of the standard loss factors to be applied to end customers from 1 January 2021;
- the establishment of a new trajectory for the reduction of commercial losses recognised to distribution companies in the three-year period 2019-2021, as well as the modification of the methods for calculating and applying the mechanism for mitigating commercial losses;
- the introduction of a mechanism for decoupling part of the network losses attributable to fraudulent "non-recoverable" use due to external elements not dependent on the actions of the companies themselves.

Resolution 449/2020/R/eel of 10 November 2020 perfected the rules on network losses for the three years 2019-2021.

In particular, the algorithm for calculating the deltaL equalisation relating to the value of the difference between the effective losses and the standard losses starting from the year 2019 was modified; the percentage factor applied for equalisation purposes for commercial losses of electricity on the networks with obligation to connect third parties for the “centre” zone and for the LV voltage level was modified, going from 2% to 1.83%.

In addition, with a specific application to be presented by the end of May 2022, the Resolution provides for recognition of network losses attributable to non-recoverable fraudulent withdrawals that manifest with exceptional amounts compared to the levels recognised conventionally. The recognition is provided for exclusively in the case of a negative net equalisation balance on the three years 2019-2021 and will have a value at the most equal to what is necessary to reduce this balance to zero.

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 Determination 19/2020 of 13 November 2020, ARERA defined the operating methods of managing the general equalisation mechanisms, confirming the method of calculating the advances every two months.

On 7 December 2020, in a CEM (Certified E-Mail) communication, the CSEA communicated the 2020 equalisation advances. The first 5 bimonthly periods were settled by CSEA on 31 December 2020 for a value of € 116.5 million, while the advance related to the sixth bimonthly period will be settled by 15 February 2021 for a value of € 23.3 million.

Further impact on the equalisation is linked to the fact-finding investigation launched with Resolution 58/2019/E/eel on the settlement of the economic items related to the electricity destined for States included in Italian territory, the Authority, with Measure 491/2019/E/eel, ordered areti to carry out – by 31 December 2019 – the actions necessary to define correctly the dispatching point of export related to the electric frontier with the Vatican City State, and to obtain the measurement data of the electricity sold to the said State.

On 20 December 2019, the company stated that it had complied with the requirements.

The Authority decided that the elements acquired constituted a condition for the launch of a proceeding aimed at ascertaining any breaches on the subject of settling the economic items related to the electricity destined for the Vatican City State.

In June 2020, areti presented its commitments under the terms of the current regulation that are being assessed by the Authority. The pronouncement on the commitments is linked to the conclusion of the recalculations by CSEA on the consumption data of the years 2009-2019.

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 confirmed with respect to the previous regulatory period

ARERA confirmed the method of recognising the capital costs for low voltage electronic meters, for firms serving more than 100,000 points of delivery, based on criteria for determining the investments effectively made 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 set in the reference tariff.

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 0.7% recovery of productivity) and with the deflator, variation in invested capital and rate of change of the volumes supplied for the part covering the invested capital and depreciation. 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, ARERA illustrated the methods for defining and awarding 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-distribuzioneSpA. 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, ARERA established in the same Resolution that for the annual updating of the return on invested capital and depreciation concerning effective low-voltage metering points, for each distribution firm, the maximum gross investment value recognisable per meter installed is 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 meters 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;

- the regulatory useful life of the asset categories relating to the low-voltage electricity metering service to be applied to investments in 2G smart metering systems is 15 years;
- the remuneration and depreciation of the invested capital are determined according to a fixed rate depreciation schedule. Depreciation schedule instalments are calculated as deferred annual instalments, considering a return time horizon consistent with the regulatory useful life.

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.

The updated PMS2 and Explanatory Report documents were sent to ARERA on 8 April 2020 and are awaiting approval.

Resolution 213/2020/R/eel, which follows 177/2020/R/eel accompanied by CD 178/2020, provides for transitional amendments for the year 2020 to some of the directives for second generation (2G) smart metering systems for measuring low voltage electricity.

In particular, in consideration of the Covid-19 health emergency and its impacts on the replacement of meters, the Authority expressed the orientation to:

- waive – at least for 2020 – the upgrade criterion at the level of the Municipality or other significant territory;
- establish that the next PDFMs, which must have a maximum quarterly frequency, can only have indicative value as long as the emergency persists. Moreover, each PDFM must be published 15 days in advance of the beginning of the month in which mass replacements of meters are planned;
- suspend – at least for 2020 – the provisions on penalties for failure to achieve at least 95% of the progress (cumulative) envisaged by PMS2;
- suspend – for the year 2020 only – the application of the IQI (Information Quality Incentive) matrix, which defines the value of the incentives to be paid to companies for the different combinations of actual expenditures incurred and planned, since the comparison between actual costs and expected costs may be subject to factors that affect the comparison.

ARERA also considers it appropriate to offer distribution companies the option of proposing the updating of their upgrade plan during 2021 to adjust for the effects of the epidemiological emergency.

On 28 July 2020, with Resolution 293/2020/R/eel, the Authority approved the plan of commissioning of the 2G smart metering systems presented by areti and determined the related conventional commissioning plan and the expenses envisaged for the plan for the purposes of recognition of the costs of capital.

The “Integrated Text on provisions of the Authority on the economic conditions for providing connection services (TIC)”, annex C to Resolution 568/2019/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 passive users, essentially in line with the previous regulatory period.

The regulatory changes that have taken place since 1 January 2016 allow the distributor to affirm that the right to remuneration for in-

vested capital arises, from an accounting point of view, at the same time as investments are made and the depreciation process is initiated in compliance with the accruals concept and the principle of correlation of costs and revenues. For this purpose, the remuneration of the investments (including of the related depreciation and amortisation) was calculated and recognised in the energy margin at the same time as they were made (so-called “Regulatory Accounting”).

Finally, we can note that with Resolution 461/2020/R/eel of 17 November 2020, the rules were defined for the payment to the electricity distribution companies of the otherwise non-recoverable expenses for failure to collect the tariffs for the network services. The CSEA is to quantify and settle the receivables not recoverable by the distribution companies in relation to the network tariffs. By and no later than 7 December 2020 the distribution companies can request to the CSEA to receive by 31 December 2020 the disbursement of an advance equal to 50% of the full payment amount. On 4 December 2020, by CEM, CSEA was asked for the advance of an amount of approximately € 5.8 million, and this was received on 31 December 2020.

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 and by the regulatory support of European directives on the recovery of materials and energy, as well as by the implementation of the European Union’s policy guidelines on the circular economy (closing the loop), which are being implemented in Italy by virtue of a delegated law that has given the government the obligation to update environmental legislation adapting it to the new EU standards.

Opportunities for developing 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.

Finally, the expansion of the potential for disposal/recovery of sewerage sludge – in the context of value added environmental services (sludge treatment, compost) – could lead to the completion of the integration with the Water business, in view of a complete management in-house of the entire supply chain.

WATER REGULATION

The year 2020 marks the beginning of the third regulatory period, namely the four-year period 2020-2023; with the approval at the end of 2019 of the relevant tariff methodology by ARERA (Resolution 580/2019/R/idr – MTI-3). Thus were launched the activities of the Area Governing Bodies (hereinafter AGBs) and the operators aimed at defining the tariffs of the IWS for the period in question and presenting the tariff proposal to the Authority.

It should also be noted during the year significant provisions of the Authority issued in previous years were implemented, with particular reference to the regulation of contractual and technical quality and late payments:

1. an incentive mechanism related to the technical quality of the IWS (Resolution 917/2017/R/idr – RQTI) is envisaged, with the quantification and allocation of bonuses and penalties for

the first two years of application (performance of the years 2018 and 2019 with respect to the situations in 2016 and 2018, respectively);

2. the new incentive mechanism for contractual quality introduced with the changes made by Resolution 547/2019/R/idr to the RQS.I.I. enters into force. The quantification is therefore provided for, starting from 2022, of bonuses and penalties on the basis of the performance achieved cumulatively at the end of the year 2021, for each of the macro-indicators MC1 "Initiation and termination of the contractual relationship" and MC2 "Management of the contractual relationship and accessibility of the service";
3. the new regulations on the arrears of the IWS (Resolution 311/2019/R/idr – REMSI) will apply.

Since the second half of February 2020, the regulatory framework on which the Authority established its measures has been profoundly affected by the effects of the Covid-19 epidemic emergency. The regulator has necessarily been focused on the measures to be taken in relation to the current health emergency, with the aim of ensuring the continuity and availability of essential services (in particular to users such as healthcare, assistance and logistical support structures involved in the management of the emergency and those protected by specific regulatory provisions), while ensuring maximum safety and protected conditions for the personnel of the supply companies, in compliance with national provisions. The current – unprecedented – emergency situation has in fact required urgent action also by the Authority with regard to the sectors it regulates.

Within the framework of the measures adopted for this situation, which are currently rapidly developing, the Authority is also addressing the issue of the effects on the application of regulations, as well as the deadlines previously set for regulatory obligations on AGBs and operators.

With regard to regulatory developments related to other issues of interest to the water sector, it should be noted that the Environmental annex to the Budget Law should shortly arrive at the Italian Council of Ministers. According to the industry press, the measure will deal with many issues, from reclamation to environmental damage to perfluoroalkyl substances (PFAS).

With regard to the sewerage and sanitation sector, of interest is the appointment with the Italian Ministerial Decree of 11 May 2020, published in Official Journal no. 146 of 10-06-2020, of the new single commissioner and the two sub-commissioners for the design and implementation of the sewerage and purification works, referred to in article 2 of Italian Law no. 18/2017 (Professor Maurizio Giugni, Mr. Stefano Vaccari and Professor Riccardo Costanza). Lasting three years, the assignment concerns the carrying out of the necessary interventions on the collection, sewerage and treatment systems for the agglomerations subject to the judgements of the Court of Justice of the European Union of 19 July 2012 in case C-565/10 and of 31 May 2018 in case C-251/17 (infringement procedure no. 2004/2034) and of 10 April 2014 in case C-85/13 (infringement procedure no. 2009/2034) not yet declared compliant with the date of entry into force of the appointment decree, as well as for the agglomerations subject to infringement procedures no. 2014/2059 and 2017/2181 and any other agglomerations subject to further infringement procedures. The commissioners are based in and operate through the Ministry of the Environment.

With regard to regulatory developments in the EU, reference is made to the publication in the Official Journal of the European Union L177/32 of 5 June 2020 of "Regulation (EU) 2020/741 of the European Parliament and of the Council of 25 May 2020 laying down minimum requirements for the reuse of water". The reg-

ulation enters into force on 25 June and its application in the Member States is foreseen three years after its entry into force.

Below is an analysis of the measures approved by ARERA during 2020.

TARIFF METHOD – THIRD REGULATORY PERIOD

With the issuance of Resolution 580/2019/R/idr at the end of 2019 "Approval of the water tariff method for the third regulatory period MTI-3", the rules for the calculation of the costs eligible for tariff recognition for the regulatory cycle 2020-2023 were defined, also providing for the procedures and deadlines for the submission of the tariff application, with an initial deadline of 30 April 2020 for submission of the relevant documents by the AGB or other competent entity to ARERA.

Emergency regulations on Tariff Methodology: Resolution 59/2020/R/com of 12 March 2020 "Deferment of the deadlines envisaged by the regulation for environmental and energy services and first quality measures in light of the Covid-19 emergency", Resolution 125/2020/R/idr of 13 April 2020 "Request for information for the adoption of urgent measures in the Integrated Water Service, in light of the Covid-19 emergency", Resolution 235/2020/R/idr of 23 June 2020 "Adoption of urgent measures in the Integrated Water Service, in light of the Covid-19 emergency".

In view of the stringent measures taken at a national level to combat and contain the spread of the Covid-19 virus and in order to ensure an orderly process of transposition of the regulation, the Authority considered it necessary to postpone some of the deadlines set (in particular the closest deadlines) in view of the duration of the 6-month state of emergency relating to the health risk declared by the Resolution of the Italian Council of Ministers of 31 January 2020. Therefore, with **Resolution 59/2020** in March, the Authority extended to 30 June 2020 the deadline by which the AGB is required to submit the relevant regulatory scheme containing the IWS tariff for the third regulatory period 2020-2023 for approval by the Authority, while the subsequent Resolution 235/2020 of June postponed this deadline to 31 July and made some important structural changes to the MTI-3 system. Resolution 235/2020 is the result of a thorough process initiated by the Authority in April with Resolution 125/2020/R/idr, in which operators were asked about the main emerging issues related to the continuation of the health emergency. The purpose of the survey was to update the existing regulation to ensure continuity of service and protection of end-users. Following the acquisition of the information referred to in the aforementioned measure, the Authority arranged a consultation (CD 187/2020/R/idr of 26 May 2020 "Guidelines for the adoption of urgent measures in the Integrated Water Service, in the light of the Covid-19 emergency") followed by Resolution 235/2020 for the adoption of urgent measures – on multiple regulatory fronts – aimed at mitigating the effects of the health emergency on the economic and financial equilibrium of the operators and on the performance of the services, while ensuring the continuity of essential services and the stability of the regulatory framework and creating the conditions for the relaunch of investments in the sector.

Among the significant changes made to the tariff methodology by Resolution 235/20 are the modification of the rate of the financial charges applied to current ordinary works (for which the same treatment of other fixed assets is envisaged for the two-year period 2020-2021 and a rate equal to 2.77% in the following two-year period 2022-2023), the provision for both an additional component of costs related to emergency management (Op_{Covid}) and a component to compensate for the effects of payment delays

granted to users (Codil). It is also envisaged that during the 2022-2023 biennial update, the AGB may recognise a higher cost related to late payment (COMor) based on the actual difficulties encountered by the operators, and AGBs are granted the right to allocate any excess resources to further breaks with respect to those used in 2018 and 2019 for the provision of the supplementary bonus and to postpone the recovery of the portion of the charges eligible for tariff recognition in 2020 to years after 2020 (but no later than 2023). If the latter option creates financial problems for management, the AGB may submit a specific request for a financial advance to the Cassa per i Servizi Energetici e Ambientale (CSEA) drawing from the Covid Emergency Account established by the Authority with Resolution 60/2020/R/Com, in line with the Italian Ministerial Decree of 9 March 2020 containing new measures to contain and combat the spread of the Covid-19 virus throughout the nation, intended to ensure the financing of initiatives in support of end customers.

With **Resolution DSID 1/2020 of 29 June 2020** "Procedure for the COLLECTION OF TARIFF DATA" the Authority defined the procedures for the collection of technical and tariff data as well as the standard forms for the report accompanying the works programme and the tariff provision for the third regulatory period 2020-2023. In order to guarantee the right of users to the precise knowledge and correct application of the tariff fees due for the service rendered, the Authority lays down in this measure both the methods for calculating any portion to be allocated to cover technical and contractual quality bonuses (to be paid like the other equalisation components to the CSEA) and the obligation to illustrate this in the bill.

With the Communication of 30 September 2020 "Tariff arrangements for the Integrated Water Service and connected measurements provided for in the rules at the national level". With this communication the Authority requires all subjects involved (operators and governing bodies in the area, or other competent subjects) the implementation in a short time of the rules on the subject of tariff arrangements for the period 2020-2023, recalling that prompt adoption of the tariff methodology and the provisions subsequently issued in order to mitigate the effects deriving from the Covid-19 emergency situation represent a fundamental passage to safeguard the economic and financial balance of the water sector and the conditions of performing the services, guaranteeing the continuity of the essential services. On this point it communicates that operators that decide to present an application for tariff update provided for to overcome cases of inertia of the said competent subjects can ask the Authority for authorisation for the extraordinary data entry procedure and for the actions required and provides indications on the related procedure, specifying that failure to send the data and information required is relevant also for the purposes of transfer of the resources to the subject that implements any necessary and urgent actions included in the "National plan of projects in the water sector" and for the purposes of assessments on the proposed actions presented to the Authority in the context of the proceeding pursuant to Resolution 284/2020/R/Idr related to the update of the "water pipeline" section of the National Plan.

With **Resolution 555/2020/R/Idr** of 15 December 2020 "Launch of proceeding for ex officio determination of the tariffs of the Integrated Water Service, under the terms of the authority's Resolution 580/2019/r/Idr, and for the acquisition of further fact-finding elements related to cases of exclusion from the tariff update" ARERA launches the proceeding for ex officio determination of the tariff multiplier for incomplete, incorrect or non-transmission of the data and of the actions required for the 2020-2023 tariff determination, conferring a mandate on the Director of the Water Systems Department so that he/she proceeds with warning operators that are in

these cases, as well as for the definition of rules on further verification and control in the case of the continuation of these situations. The mandate also includes the possibility of warning Area Governing Bodies (AGBs) in the case of non-observance of the tariff arrangement obligations, requiring the same to send, within 30 days, the necessary information, communicating that otherwise the tariff will be determined ex-officio setting the tariff multiplier at 0.9 as provided for in paragraph 5.8 of Resolution 580/2019/R/Idr. The warning is also envisaged also for subjects that have not fulfilled the tariff arrangement obligations for the 2016-2019 regulatory period.

The measure also provides for the organisation of territorial focus groups with the AGBs, to which the Regions and the District Basin Authorities can also be invited to participate, on the basis of the subjects dealt with each time, for the reconciliation between tariff determinations and assessments aimed at updating the "water pipeline" section of the National Water Projects Plan.

We can note finally that at 31 December 2020 eight tariff Resolutions had been approved by ARERA, in relation to 7 Optimal Territorial Areas (OTAs) and for a total of more than 700 municipalities served and a population of more than three million resident inhabitants.

On the subject of tariffs we can note also the recent judgements of the Council of State (08079/2020, 08354/2020 and 08502/2020), which, pronouncing in the disputes of a number of operators, among which also Acea Ato 2, in relation to judgements of the Milan Regional Administrative Court (RAC) on the Transitional Tariff Method (TTM – ARERA Resolution 585/2012/R/Idr) accept the arguments regarding the methods of calculating Net Working Capital and Coverage of the financial expenses on adjustments.

TECHNICAL QUALITY

Resolution 46/2020/R/Idr of 18 February 2020 "Launch of the procedure for the quantitative assessments envisaged by the incentive mechanism for the technical quality of the Integrated Water Service referred to in Title 7 of annex A to Authority Resolution 917/2017/R/Idr (RQTI)".

With this measure, the Authority initiated the procedure for the allocation of bonuses and penalties envisaged by the incentive mechanism of the Technical Quality Regulation (Resolution 917/2017/R/Idr and its annex "A" – **RQTI**), defining the timing and methods of implementation that, for the operators that have submitted to the Authority a complete set of information for the years 2018 and 2019 for the purpose of defining the rankings would have occurred (in the absence of a health emergency) after the conclusion of the data collection, whose deadline had initially been set at 17/04/2020.

Emergency regulations on Technical Quality: Resolution 59/2020/R/com of 12 March 2020 "Deferment of the deadlines envisaged by the regulation for environmental and energy services and first quality measures in the light of the Covid-19 emergency", Resolution 235/2020/R/Idr of 23 June 2020 "Adoption of urgent measures in the Integrated Water Service, in the light of the Covid-19 emergency".

The aforementioned **Resolution 59/2020** postponed to 17 June 2020 the mandatory deadline for the conclusion of the data collection aimed at assessing the achievement of the technical quality targets for the years 2018 and 2019 and to 31 October 2020 (from 30 September) the deadline for the allocation of the relevant bonuses and penalties.

A Communication on 16 June 2020 announced a further postponement of the deadline from 17 June to 17 July 2020 and a subsequent Communication of 2 July specifically launched the collec-

tion of the required QT 2018-2019 data (as part of the collection called "Tariffs and Technical Quality of Water Services") by means of online submission by AGBs or other competent entities.

The subsequent Resolution 235/2020, in addition to confirming the postponement the deadline for the closure of QT 2018-2019 data collection to 17 July 2020, introduced elements of flexibility in the mechanisms for assessing contractual and technical quality performance. The measure provides for the technical (and contractual) quality targets for 2020 and 2021 to be assessed cumulatively on a biennial basis. Consequently, for the purposes of applying the bonus (penalty) factors in 2022 with respect to the years 2020 and 2021, the level reached cumulatively for the technical quality macro-indicators from M1 to M6 by the end of 2021 will be an element of assessment.

With a subsequent communication of 2 July 2020 ARERA informed of the opening of the data collection and made available the related User Manual.

CONTRACTUAL QUALITY

Communication of 9 January 2020: in implementation of the provisions of article 77 of the RQS.I.I., the Authority provided for the publication of the IWS contractual quality data communicated by operators for the first two years (2017 and 2018) of full application of the regulation introduced by Resolution 655/2015. The figures refer to 140 operators grouped by size based on the population residing in the municipalities declared in the ATID (Territorial Register of the Integrated Water Service). The operators are divided into Top (14 operators including Acea Ato 2, Acque, Gori and Publicacqua), Large (9 operators including Umbra acque), Medium (30 operators including Acea Ato 5, AdF and Nuove Acque) and Small (87 operators including Geal, Gesesa, S.I.I. and Acea Ato 5 for the Molise OTA and the Terra Lavoro OTA).

With a subsequent communication of 25 November the data related to the year 2019 were also published, together with the figures referred to 2018 of the macro-indicators of contractual quality MC1 – "Initiation and termination of the contractual relationship" and MC2 – "Management of the contractual relationship and accessibility of the service", starting base for the application of the incentive mechanism pursuant to Title XIII of the Regulation on the Quality of the Integrated Water Service (Regolazione della Qualità del Servizio Idrico Integrato – RQS.I.I.).

Biennial limitation

The 2018 Budget Law (art. 1, paragraphs 4 and 5) had established for contracts for the supply of water services to domestic users, micro-enterprises and professionals that the right to the fee due to the water operator was time-limited to two years, and no longer five, unless the failure or erroneous collection of consumption data resulted from the ascertained responsibility of the user. Based on this legislation, ARERA had approved Resolution 547/2019 which, in its annex B, manages in detail the methods and operating times relating to consumption exceeding two years.

Article 1, paragraph 295 of the 2020 Budget Law (Italian Law no. 160 of 27 December 2019) repeals art. 1, paragraph 5 of the 2018 Budget Law, setting the limitation period to two years even for cases where the user is responsible for failed or erroneous collection of consumption data.

With the Resolution in question, ARERA made changes and additions and adapted the regulatory framework to current legislation. In particular, amendments were made to annex B of Resolution 547/2019/R/idr, updating the text of the communication to be sent to the user in art. 3 and repealing the entire art. 4 relating to the obligations of the operator in the case of a billing delay attrib-

utable to the responsibility of the end user. Moreover, in order to make the current regulatory framework consistent with the limitations of the new legislation, amendments were made to the RQS.I.I. (art. 50.2-ter, written complaints), the REMSI (art. 4 on the information provided in the notice procedure) and annex A of Resolution 586/2012 (art. 6 on the information to be reported on the bill relating to payments, arrears and security deposit). The provisions take effect with regard to bills issued in the first billing cycle following the date of publication of the Resolution.

Communication of 18 February 2020 "Data collection: Contractual quality of the Integrated Water Service".

With this communication, ARERA informed operators of the opening of the collection with a deadline for operators of 16 March 2020 and 27 April 2020 for validation by AGBs. For the collection, in addition to the data pertaining to the year 2019, operators are required to provide a summary of the services performed in 2018 for the purpose of applying the incentive mechanism for contractual quality introduced in the RQS.I.I. with Resolution 547/2019, to identify the starting level of the macro-indicators of contractual quality MC1 – "Initiation and termination of the contractual relationship" and MC2 – "Management of the contractual relationship and accessibility of the service", the classes of membership and objectives for the year 2020.

With reference to operators such as Acea Ato 2 that apply improvement standards, the Authority's indication is to reclassify the number of services performed within/beyond the standard with reference to the minimum level provided for by the RQS.I.I..

Emergency regulations on Contractual Quality: Resolution 59/2020/R/com of 12 March 2020 "Deferment of the deadlines envisaged by the regulation for environmental and energy services and first quality measures in the light of the Covid-19 emergency", Resolution 235/2020/R/idr of 23 June 2020 "Adoption of urgent measures in the Integrated Water Service, in the light of the Covid-19 emergency".

Due to the Covid-19 emergency the deadlines communicated in February were subsequently postponed respectively to 15 May 2020 for operators and 26 June 2020 for AGBs by the aforementioned Resolution 59/2020. The measure also clarified that non-compliance with the standards related to the Covid-19 emergency can be attributed to "force majeure" with the exclusion of the operator from the obligation to pay automatic compensation.

As anticipated in the previous paragraph, with Resolution 235/2020 ARERA adopted elements of flexibility in the complex context generated by the Covid-19 emergency, providing for the contractual quality targets for the years 2020 and 2021 to be identified on the basis of the data related to the simple indicators recorded in 2018 and assuming that the contractual (and technical) quality targets for 2020 and 2021 are assessed cumulatively on a biennial basis. Consequently, for the purposes of applying the bonus (penalty) factors in 2022 with respect to the years 2020 and 2021, the level reached cumulatively for each of the MC1 and MC2 contractual quality macro-indicators by the end of 2021 will be an element of assessment.

SOCIAL WATER BONUS

The activities of the Authority during the period under review were aimed at applying the provisions of art. 57-bis of Italian Law Decree no. 124 of 26 October 2019, converted with amendments by Italian Law no. 157 of 19 December 2019 (Italian Tax Law Decree). The measure provides for the extension of the social water bonus to residential domestic users benefiting from guaranteed minimum income and guaranteed minimum pen-

sions, the application of the same also to sewerage and purification services, and from 1 January 2021 automatic recognition to persons with an ISEE within the limits provided by current legislation. Finally, with regard to the health emergency caused by Covid-19, the Authority extended the deadlines for the submission of applications for renewal of bonuses by those entitled. Below are the measures of interest in H1 2020:

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 Law Decree no. 124 of 26 October 2019, converted with amendments by Italian Law no. 157 of 19 December 2019”.

The measure updates the 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 as amended, annex “A” – TIBSI) in accordance with article 57-bis of Italian Law Decree no. 124 of 26 October 2019, converted with amendments by Italian Law no. 157 of 19 December 2019. In particular, the recognition of the social water bonus is regulated for residential domestic users benefiting from guaranteed minimum income or guaranteed minimum pensions, in addition to those suffering economic and social hardship for whom it was already envisaged. The measure also modifies the quantification of the bonus (for which the variable unit portion of the sewerage and purification fee is added to the preferential tariff-variable water quota) and the total charge of the UI3 component, which is also calculated for the sewerage and purification services. The new provisions will apply from 1/1/2020.

Emergency regulations on the Social Bonus: Resolution 76/2020/R/com of 17 March 2020 “Urgent provisions on the electricity bonus, gas bonus and social water bonus with respect to the urgent measures introduced in the country related to the Covid-19 epidemiological emergency”, Resolution 140/2020/R/com of 28 April 2020 “Extension of the urgent provisions referred to in Resolution 76/2020/R/Com of the authority on the electricity bonus, gas bonus and social water bonus introduced following the Covid-19 epidemiological emergency”, the SGATE Communications of 29 May and 8 June.

Resolution 76/20, with a view to protecting economically disadvantaged domestic users, temporarily **suspends from 1 March 2020 to 30 April 2020:**

- a. the effects of the expiry of the deadlines for applications for the renewal of bonuses; The application for renewal that had a deadline for submission in March and April 2020 may be submitted by 29 June 2020;
- b. the **flow of communications to and from SGATE** regarding the eligibility for the bonus, renewal and issuance of direct debit transfers.

The subsequent Resolution 140/20 further extends these terms by providing that consumers whose bonus expires in the period from **1 March to 31 May 2020** are given the right to renew the application for the disbursement of the bonuses beyond the original deadline, extending the time until **31 July 2020**.

Once the application is accepted, following normal checks, the “discount” in the bill will be guaranteed continuously and retroactively from the original expiry.

Subsequent **SGATE Bulletins** remind the users concerned of the terms of renewal of bonuses and announce the reactivation of communication flows related to the management of bonuses.

Consultation Document 204/2020/R/com of 9 June 2020

“Guidelines on automatic recognition of beneficiaries of national social bonuses (Italian Decree Law 124/19)”.

The Authority explains the guidelines regarding the possible methods of operation of the system of automatic recognition of social bonuses for electricity, gas and water, scheduled with effect from 1 January 2021, with the aim of guaranteeing their disbursement without the need for those entitled to submit an application. Such a mechanism would allow for the full enjoyment of the effects of reduced expenditures for the services concerned by some 2.5 million households in economic hardship.

The measure falls within the scope of the procedure initiated by ARERA with Resolution 14/2020/R/com “Start of proceedings for the implementation of the provisions on the automatic recognition of social bonuses by Italian Decree Law no. 124 of 26 October 2019, converted with amendments by Italian Law no. 157 of 19 December 2019” and is included in the lines of action of the 2019-2021 Strategic Framework adopted by ARERA with Resolution 242/2019/A (strategic objective OS3 “Strengthening support mechanisms for vulnerable consumers”).

The proposal to provide for the transition from a system of awarding bonuses “on demand” to a system of automatic attribution to those entitled, based on the electronic exchange of the necessary information contained in the databases of INPS and the IIS (Integrated Information System) was made by the Authority, lastly with the Notification 280/2019/I/Com. In fact, the adoption of the automatic recognition mechanism is intended to bridge the gap between potential beneficiaries and the actual recipients of bonuses which, as highlighted in the aforementioned Report, has always remained, on average, around 30-35% for previous energy bonuses, and with a similar relationship also found for the most recent social water bonus (in force since 1 January 2018).

In particular, the document sets out the Authority’s guidance on:

- the operation of the mechanisms that allow the transition from a system of social bonuses for electricity, gas and water attributed upon the request of those entitled to an automatic recognition mechanism;
- the definition of the information flows between the INPS and the IIS Manager, and more generally the information flows between the various institutional entities and operators in the supply chain necessary for the automatic assignment of bonuses to those entitled, and the roles of the different entities in the automatic system of recognising the discounts;
- the definition of the application procedures for the disbursement of fees;
- the deadline for interested parties to submit their comments was set at 9 July 2020.

Resolution 585/2020/R/com of 29 December 2020 “Provisions on the accrediting of water operators on the Integrated Information System”.

Following on from the aforementioned consultation document 204/2020/R/CPM, it is ordered that, in view of the launch of the automatic recognition of the water social bonus to those that have a right starting from 1 January 2021, all operators of the Integrated Water Service already registered with the Operator Database and the Territorial Database Integrated Water Service (ATID) are required to accredit with the IIS (Integrated Information System managed by Acquirente Unico SpA) according to the methods established in the Regulation on its operation. The accrediting will be possible starting from 1 January 2021 and, for subjects registered in the ATID as of 31 December 2020, must be completed by 30 April 2021.

Acquirente Unico will transmit periodically to ARERA the reporting related to observance of the formalities relating to the accred-

iting process by the water operators, under the terms of paragraph 6.1 of annex A to Resolution ARG/com 201/10.

Determination 11/2020 – DACU of 29 December 2020 “Provisions for the management of the period of transition from the current system to the new system of automatic recognition of social bonuses for economic hardship”.

With this determination ARERA approved the provisions to manage the transition to the new system of automatic recognition of social bonuses for economic hardship, in force from 1 January 2021, superseding the system managed through SGAté.

ARREARS

Emergency regulations on arrears:

Resolution 60/2020/R/Com of 12 March 2020 “First urgent measures and establishment of an extraordinary management account for the Covid-19 epidemiological emergency”, **Resolution 75/2020/R/Com of 17 March 2020** “Urgent provisions on electricity, gas, water and integrated waste cycle management, including differentiated, municipal and similar, for the municipalities of Bertinico, Casalpusterlengo, Castelgerundo, Castiglione d’Adda, Codogno, Fombio, Maleo, San Fiorano, Somaglia, Terranova dei Passerini, Vò”, **Resolution 117/2020/R/Com of 2 April 2020** “Further urgent measures for the Covid-19 epidemiological emergency to protect customers and end users: amendments and additions to the Authority’s Resolution 60/2020/R/Com of 12 March 2020”, **Resolution 124/2020/R/Com of 13 April 2020** “Extension of urgent measures for the Covid-19 epidemiological emergency to protect customers and end users: amendments to the Authority’s Resolution 60/2020/R/Com of 12 March 2020”, **Resolution 148/2020/R/Com of 30 April 2020** “Further extension of urgent measures for the Covid-19 epidemiological emergency to protect customers and end-users: amendments to Authority Resolution 60/2020/R/Com”.

Resolution 60/20, the first urgent measure issued in the matter of arrears in compliance with the Italian Ministerial Decree of 9 March 2020, establishes the following:

Temporary non-application of the rules on credit protection

Between 10 March and 3 April 2020 (period of validity of the Italian Ministerial Decree of 9 March 2020), the credit protection rules for non-performance of payment obligations relating to bills that had expired on 10 March 2020 shall not apply. The non-application is extended to types of domestic use and other uses other than domestic, as defined in the TICS. During this period, the operator cannot therefore suspend service due to late payment (nor limit and/or deactivate the water supply). If the operator has already suspended service, it must promptly reactivate the suspended supply.

In cases of arrears outstanding as of 10 March, the regulations referred to in the REMSI are again applicable as of 4 April. To this end, operators are required to send again the notice of placing in default referred to in article 4 of the REMSI before carrying out interventions to limit, suspend and/or deactivate the water supply.

Establishment of the Covid-19 emergency account

An extraordinary management account has been established with CSEA to ensure the financing of initiatives in support of electricity, gas and water sector end-users related to the Covid-19 epidemiological emergency. The Fund may use the stocks available in the other management accounts for an amount of up to € 1 billion, without prejudice to the need to ensure the regular management of payments relating to the purposes for which the management accounts were established.

Apart from **Resolution 75/2020**, which provides for special breaks for accounts in the so-called “red zone”, including the suspension

of the payment terms of bills and the non-application of credit protection regulations until 30 April 2020, the subsequent measures on arrears were then extended until 13 April (**Resolution 117/20**), and later to 3 May (**Resolution 124/20**), and finally **17 May** only for domestic users (**Resolution 148/20**) the blocking of procedures for the suspension of water supplies.

Resolution 124/20 introduces **new criteria for the repayment of amounts due** by granting access to an interest-free instalment plan to end users who have not been able to meet the payment of bills and whose ordinary payment terms fall within the period of validity of government containment measures, or that were issued in that period, or who account for their consumption. **Resolution 148/20** also extends to 17 May – for domestic customers only – the blocking of supply suspension procedures, also establishing for non-domestic users the possibility for the operator (after verification by the AGB) to offer payments in instalments (without interest) for bills due or issued by 31 May at the latest.

Resolution 221/2020/R/idr of 16 June 2020 “Amendments to the regulation of arrears in the Integrated Water Service, in implementation of the provision referred to in article 1, paragraph 291 of Italian Law no. 160 of 27 December 2019”.

The measure updates the REMSI in light of the provisions introduced by article 1, paragraph 291 of Italian Law no. 160/2019, with particular reference to the methods and times for notifying the user about the start of the procedures for limiting, suspending or deactivating the supply in the event of failure to pay the amounts due, for which the new legislation envisages a notice of not less than 40 days. In particular, the methods are defined for sending the payment reminder, which can only be sent by registered letter with return receipt or certified email, and specifies that the deadline by which the end user is required to pay the unpaid payments, to be indicated in the notice of formal notice, must be calculated from the receipt by the user of the payment reminder and may not be less than 40 calendar days. The new provisions take effect from the date of publication of the Resolution (17 June 2020).

With the Communication of 2 December 2020 the Authority intended to give effect to the monitoring activity on cases in which the limitation procedure or the promotion of selective disconnection in apartment complex accounts are not technically feasible (article 2 Res. 311/19). The AGBs are therefore required to compile, in collaboration with the operator, the Report annexed to the communication.

In the report (to be sent by 28 February 2021), as well as providing the numerical and arrears data related to user accounts (disconnectable, resident domestic, apartment complex), ARERA requires a first report on the application of the REMSI (including the urgent regulations introduced subsequently), a survey of the cases in which limitation of the supply has not been technically feasible (with a summary of the reasons adopted by the operator) and the activities begun by the operator to promote in apartment complexes the installation of a meter for each individual property unit.

WATER WORKS GUARANTEE FUND

Resolution 8/2020/R/idr of 21 January 2020 “Definition of the arrangements for managing the water works guarantee fund”.

ARERA regulates the management and use of the Guarantee Fund established in article 58 of Italian Law 221/2015, in line with the provisions of the Italian Ministerial Decree of 30 May 2019, and taking into account the provisions of the Decree of the Ministry of Economy and Finance of 19 November 2019, specifying the requirements and conditions for access to the guarantee and de-

fining adequate reporting, communication and monitoring obligations in connection with the issue of the guarantee. The coverage of the costs of managing the Fund (replenished by the UI4 component established by MTI-3) is also regulated, and as provided for in article 9 of the Italian Ministerial Decree of 30 May 2019 a Risk Assessment Committee is established at the CSEA with the tasks of assessing and analysing the risks and operating procedures of the Fund. The priority interventions covered by the guarantee consist of the works included in the National Plan for projects in the water sector, for the portion not financed, the projects (not yet financed and started and if not included in the National Plan) related to the adaptation to technical quality standards that meet a predetermined set of characteristics, and projects concerning small dams. The Resolution also details the eligible financing transactions, such as medium/long-term financing contracts and financial instruments of different types.

NATIONAL WATER PIPELINE PLAN

Resolution 284/2020/R/idr of 21 July 2020 “Launch of the proceeding for identification of the second list of the necessary and urgent actions for the water sector for the purposes of updating the “water pipelines” section of the national plan, pursuant to article 1, paragraph 516 of Italian Law 205/2017”.

The measure launches the proceeding for identification of the second list of the necessary and urgent actions for the water sector for the purposes of updating the “water pipelines” section of the national plan, pursuant to article 1, paragraph 516 of Italian Law 205/17, defining a single plan based on a multi-annual programme for the 2021-2028 period, to which to allocate all the residual resources provided for in paragraph 155 of article 1 of Italian Law 145/18 the “water pipelines” section of the National Plan.

The criteria for selecting the actions adopted on defining the first passage of the “water pipelines” section are confirmed, specifying that the elements for assessment will be identified as regards:

- synergy of the projects proposed with respect to the development of the planning of the “reservoirs” section of the Plan;
- effectiveness of the territorial and institutional context, assessing the consistency with the existing planning instruments;
- effectiveness of the implementer, also in terms of balance between financing sources available and proportion of financing in the form of grants.

After the approval of the second list, it will be necessary to proceed with any additions to the Action Plans and the Strategic Work Plans, explaining, in these latter, all the actions included in the said list, on the basis of the methods that will be indicated by ARERA. Finally, a set of further actions/projects will be identified and communicated to the Prime Minister’s Office and to the ministers involved, for the purpose of assessing inclusion in the Plan to replace the actions that it will not be possible to carry out.

Resolution 520/2020/R/idr of 1 December 2020 “Extraordinary methods of disbursing the portions of financing for the completion of certain projects pursuant to annex 1 of Italian Prime Ministerial Decree dated 1 August 2019 concerning “adoption of the first passage of the National Plan of projects in the water sector – water pipelines section”.

With this measure the Authority authorises the Energy and Environmental Services Fund to disburse the portions of financing pursuant to paragraph 4.1 of Resolution 425/2019/R/idr, for the implementation of seven actions, transmitted by the related Entities of reference and contained in annex 1 of Italian Prime Ministerial Decree dated 1 August 2019 which adopted the first passage of the “water pipelines” section of the National plan of projects in the wa-

ter sector, under the terms of paragraph 516, article 1, of Italian Law no. 205 of 2017, adjusting at the same time – in the light of the difficulties connected in particular with the Covid-19 emergency – the ways of disbursing the resources, up to 31 December 2020, in order to maintain their effectiveness. The projects relate to the Lombardy, Veneto, Marche and Lazio regions.

Emergency regulation of the Guarantee Fund and the National Plan for Projects: Notification 136/2020/I/Com of 23 April 2020 “Reporting to Parliament and the Government on measures to support investments and protect end-users of the integrated waste management service and the Integrated Water Service and end-users of electricity and natural gas as a result of the Covid-19 epidemiological emergency”.

With this notification, the Authority invites the adoption of measures to strengthen instruments already envisaged by the law to stimulate investments in infrastructure:

- strengthening of the “Guarantee Fund for projects aimed at upgrading water infrastructure” by means of a regulatory intervention that, in addition to giving the Authority a mandate for simplified management of the Fund on aspects within its competence, complements the resources available with an allocation of € 100 million (charged to public finances, for the years 2020-2021) in order to increase the range of feasible projects and the leverage effect on investments;
- allocation of additional State resources for the aqueducts section of the National Water Plan compared with the current € 40 million/year planned up until 2028.

METERING

Emergency regulation on metering: Resolution 235/2020/R/idr of 23 June 2020 “Adoption of urgent measures in the Integrated Water Service, in light of the Covid-19 emergency”.

The measure introduces specific waivers limited to the year 2020 with regard to the obligations to acquire metering data pursuant to TIMS.I.I., stating that:

- a. the operator is required to make at least one attempt to collect metering data from end users, regardless of the related annual average consumption, and that for this year the provisions relating to the minimum frequency of collection attempts (paragraph 7.2) and subsequent attempts (paragraph 7.3, lett. 1) do not apply;
- b. a reading communicated via self-reporting and validated by the operator fulfils the obligation of a collection attempt;
- c. for the year 2021, the Ca coefficient (average annual consumption) is conventionally set equal to the value determined in the year 2019.

TARIFF SEGMENTATION – INDUSTRIAL WASTEWATER

Emergency regulations on metering: Resolution 235/2020/R/idr of 23 June 2020 “Adoption of urgent measures in the Integrated Water Service, in light of the Covid-19 emergency”.

With this measure, as an exception to paragraph 27.4 of the TICSII, the Authority established for 2020 only that the operator is required to make at least **one attempt to collect data on the volume discharged** – whether detected with a specific meter at the point of discharge, or determined on the basis of the values taken from the water pipeline – regardless of the annual volumes of wastewater resulting from the billing issued for the most recent calendar year. Moreover, for the year 2020, notwithstanding the provisions of paragraph 28.3 of the TICSII, the operator is required to carry out at least **one analysis of industrial wastewater** in order to iden-

tify the concentrations of the main and specific pollutants to be used in the tariff formula, regardless of the volumes discharged, without prejudice to the provision of a minimum number of analyses of industrial waste with no hazardous substances equal to zero in cases of discharged volume not exceeding 15 m³/day and not exceeding 3,000 m³/year. The use of waivers should take into account the necessary checks to be carried out in accordance with the recommendations of the Istituto Superiore di Sanità for the prevention of the spread of the Covid-19 virus.

UNBUNDLING

Communication dated 11 June 2020 “Collection of the separate Financial Statements for the 2019 financial year pursuant to Resolution 137/2016/r/com of 24 March 2016”.

The communication announces the opening of the 2019 edition of the collection of the separate Financial Statements drawn up in accordance with the rules on unbundled accounting, covering all operators carrying out one or more of the activities referred to in paragraph 4.1 of the Integrated Accounting Unbundling Text (TIUC), including all operators of the Integrated Water Service and multiutilities. The deadlines for submission of the separate Financial Statements from the date of opening of the collection if later than the date of approval of the Financial Statements or, in the absence thereof, of the closing of the financial year: if the Financial Statements are approved at a later date, the deadlines start from the date of approval. Collection will be suspended in the period from 8 to 16 August, during which the deadlines set by the TIUC for submitting the information are considered suspended.

SEISMIC EVENTS

Resolution 54/2020/R/com of 3 March 2020 “Amendments and additions to Authority Resolutions 810/2016/R/Com, 252/2017/R/Com and 587/2018/R/Com on electricity, gas and Integrated Water Services in support of the populations affected by the earthquakes of 24 August 2016 and subsequent events in implementation of Italian Law Decree 123/2019”.

The measure implements the provisions of Italian Law Decree 123/2019, as converted by Italian Law 156/2019, extending until 31 December 2020 the deadline for the suspension of payments for the supply of electricity, gas and Integrated Water Services for users of unusable buildings in Central Italy and the Municipalities of Casamicciola Terme, Lacco Ameno and Forio and postponing to a subsequent measure the definition of the operating procedures for the recognition of the discounts.

Regarding the adjustment of the advances to CSEA, the new article 32.4 of Resolution 252/17 provides that the operators of the IWS that have made use of advances from CSEA for the amounts relating to bills whose payment deadlines have been suspended shall by March 2024 (previously March 2022) adjust and return to CSEA any amounts accrued even if not collected from the end users.

CONSUMER PROTECTION

With regard to consumer protection, in the first half of 2020 ARERA's intense focus on studying and presenting data relating to both the activities of consumer branches and the Conciliation Service was noted. In addition, following the Covid-19 emergency, the deadlines established by the Integrated Conciliation Text (TICO) were postponed.

Emergency regulations on Consumer Protection: Resolution 59/2020/R/com of 12 March 2020 “Deferment of the deadlines envisaged by the regulation for environmental and energy services and first quality measures in light of the Covid-19 emergency”, Resolution 74/2020/S/com of 17 March 2020 “Urgent provisions regarding the deadlines of the sanctioning procedures before the Regulatory Authority for Energy Networks and Environment”.

Article 5 of the aforementioned Resolution 59/20 concerning the deferment of the TICO deadlines establishes that the maximum deadline for **concluding conciliation proceedings** before the ARERA Conciliation Service is set at **180 calendar days** (instead of the 90 envisaged in art. 3.3 TICO) from the date of submission of the full conciliation request. This deadline applies to all proceedings initiated before the Conciliation Service in accordance with the state of emergency declared throughout the country, as well as to proceedings pending before the Service on the date of publication of the Resolution itself.

Resolution 74/20 postpones to 31 May 2020 the deadlines of the **investigation phase and the decision-making phase** of proceedings that have already been initiated or will be initiated after the publication of the Resolution. 5 June 2020 is established as the new deadline for the fulfilment of the decision-making phase that expired in the period between 23 February and 18 March (date of publication of the Resolution).

Resolution 366/2020/E/Com of 6 October 2020 “Notice to fulfil the obligation of providing a response to requests for information of the Office for energy consumers and the environment in the context of management of the special Resolution procedures for the energy sectors and second-level complaints for the water sector”.

With this measure the Authority gives notice to the 31 operators to fulfil the obligation of responding to requests for information sent to the Office within 30 days of receiving the measure. The requests refer to the management of second-level complaints with response deadlines that expired in the period 1 March 2019-28 July 2020 and not sent.

Failure to respond to the requests constitutes a breach of a regulatory obligation and prevents final customers or users from activating their protection measures in order to solve problems that have arisen with the operator or manager with the support of the Office. Non-compliance with the notice constitutes a condition for possible exercise of the power to sanction and prescribe.

Resolution 186/2020/R/ldr of 26 May 2020 “Additions and amendments to Authority Resolution 547/2019/R/ldr, in implementation of the provision referred to in article 1, paragraph 295 of Italian Law no. 160 of 27 December 2019 on billing of amounts relating to consumption dating back more than two years”.

The 2018 Budget Law (art. 1, paragraphs 4 and 5) had established for contracts for the supply of water services to domestic users, micro-enterprises and professionals that the right to the fee due to the water operator was time-limited to two years (and no longer to five) unless the failure or erroneous collection of consumption data resulted from the ascertained responsibility of the user. Based on this legislation, ARERA had approved Resolution 547/2019 which, in its annex B, manages in detail the methods and operating times relating to the billing of consumption for periods exceeding two years.

Article 1, paragraph 295 of the 2020 Budget Law (Italian Law no. 160 of 27 December 2019) repealed art. 1, paragraph 5 of the 2018 Budget Law, setting the limitation period to two years even for cases where the user is responsible for failed or erroneous collection of consumption data.

With the Resolution in question, ARERA made changes and addi-

tions by adapting the regulatory framework to current legislation. In particular, amendments were made to annex B of Resolution 547/2019/R/idr, updating the text of the communication to be sent to the user in art. 3 and repealing the entire art. 4 relating to the obligations of the operator in the case of a billing delay attributable to the responsibility of the end user. Moreover, in order to make the current regulatory framework consistent with the limitations of the new legislation, amendments were made to the RQS.I.I. (art. 50.2-ter, written complaints), the REMSI (art. 4 on the information provided in the notice procedure) and annex A of Resolution 586/2012 (art. 6 on the information to be reported on the bill relating to payments, arrears and security deposit). The provisions take effect with regard to bills issued in the first billing cycle following the date of publication of the Resolution (i.e. after 28 May 2020).

AUTHORITY CONTRIBUTION 2020

With Resolution 358/2020/A and Determination 73/DAGR/20120 of 17 November 2020 the Authority ordered payment, by 15 December 2020, of the contribution for the operation of ARERA which for the water sector is 0.27 per thousand of the revenue resulting from the approved Financial Statements for financial year 2019. The declaration related to the payment must be sent to the Authority by 28 February 2021.

TARIFF DETERMINATION OTA2 CENTRAL LAZIO – ROME AND OTA 5 FROSINONE AND OTHER SIGNIFICANT EVENTS AT THE OTA LEVEL

While awaiting definition of the tariff related to the third regulatory period (four years 2020-2023) under the terms of ARERA Resolution 580/2019/R/idr (MTI-3), Acea Ato 2 as provided for applied, starting from 1 January 2020, the tariff of the previous year adjusted as per paragraph 7.2 lett. a) of the said Resolution on the basis of the tariff multiplier resulting from the Economic-Financial Plan already approved at the moment of the 2018-2019 tariff update.

As of March 2020, the application of the new tariff structure approved by Resolution no. 4/2019 by the Mayors' Conference at its meeting of 11 November 2019 pursuant to ARERA Resolution no. 665/2017/R/idr (TICSI – Integrated Text for Water Services Charges) was initiated with effect from 1 January 2019. The application of the new tariff structure began in March 2020 to enable the activity of counting the number of components of each resident domestic user account of the OTA 2.

The most significant changes in the TICSI concern residential households, for which the number of residents in the household is introduced as a key factor in the calculation of expenditures. The service fee (fixed and variable portions) is calculated on the basis of the number of residents who make up the household as communicated by the customer. The application of the tariff based on the effective number of components is backdated to 1 January 2019 for users that made this information available by the end of February 2020, while the data acquired later will take effect from the communication date and up to that date, in accordance with the provisions of the regulation at the national level, the standard per-capita criterion is applied, that is considering a standard resident domestic user of three components.

In relation to the tariff update for the four years 2020-2023, the Mayors' Conference of the OTA 2 Central Lazio – Rome after a first adjournment resolved at the session on 4 November, on 27 November approved the tariff proposal prepared by its Operation-

al Technical Secretariat (OTS) in agreement with Acea Ato 2, supplemented with the amendment voted unanimously during the same session. This amendment provides for an increase in the Supplementary Water Bonus, which will be maintained alongside the national bonus, increasing it from the € 8 million already provided for to € 17 million over the four years, also in consideration of the emergency situation determined by the pandemic; the amount may be increased further if it is found to be insufficient, while in the case of excess this can be allocated to reduce the future tariff adjustments in order to contain the tariff increases. Again in consideration of the emergency situation, up to 31/12/2021 unless extended, users admissible at the moment of the request for the contribution with ISEE (Equivalent Economic Situation Indicator) within the limits set by ARERA will be able to access, exclusively to covers earlier arrears, a further one-off amount up to three times the ordinary value.

The amendment provides also for an expansion of activities connected with network reclamations, in order to protect water resources and limit losses,

The documents accompanying the tariff application (among the main ones action programme with evidence of the Strategic Work Plan, Economic and Financial Plan, economic and technical data required by the Authority, Resolutions on tariff arrangement) are currently being assessed by the Authority. As well as what is mentioned above, below is a summary of the main points of Resolution 6/20 of 27 November 2020, issued by the OTA 2 Conference of Mayors:

- placing of the management in the regulatory scheme related to the 5th quadrant pursuant to paragraph 5.1 of annex A (MTI-3) of Resolution 580/2019/R/idr (high investments with respect to the value of the existing infrastructures and average per-capita Guaranteed Revenue Constraint (GRC) higher than the national average figure determined by ARERA);
- Action Programme for the four years 2020-2023 which provides altogether for more than € 1,300 million, and for the subsequent period 2024-2032 a further more than € 3,200 million; in particular, for the four years 2020-2023, new investments are provided for on average of approximately € 90 per year per-capita;
- tariff multiplier theta (to be applied to the tariff in force at 31/12/2015) of 1.020 for 2020 (that is a percentage tariff increase of 2.03% compared to 2019, a figure besides coinciding with what is already applied transitionally by operators starting from 1 January 2020, in line with the national regulation). For subsequent years the value of theta is respectively 1,078, 1,139 and 1,202;
- use of what is not spent of the solidarity contribution collected in the whole of 2019 (more than € 5.6 mln) to reduce the tariff adjustments due for 2020 and 2021;
- adoption of the value of the psi parameter of 0.45 (the maximum value provided for in Resolution 580/2019/R/idr is 0.8) for the purposes of determining the component for the financing in advance of new investments (FNI_{new}).

In relation to the aforementioned water bonus, we can note also the update pursuant to ARERA Resolution 499/2019/R/com of the related Implementation Regulation for the OTA 2 Central Lazio Rome, approved by Resolution no. 2-19 of the Mayors' Conference of 15/04/2019. The new provisions are valid for the year 2020.

Those entitled are direct users (holders of a residential household account) and indirect users (household users in an apartment complex) with the following requisites:

- ISEE indicator up to € 13,939.11 and household of up to 3 members;
- ISEE indicator up to € 15,989.46 and household with 4 members;
- ISEE indicator up to € 18,120.63 and household with 5 or more members.

Under their own responsibility and based on specific certification by the relevant offices, the Municipal Administrations also 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. 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 metres per year for each member of the household, for direct and indirect users with ISEE up to € 8,265 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 payment, normally within 6 months from the date of submission of the application (which must have been submitted by 31 December 2019).

We can note finally that in the context of the Mayors’ Conference held on 7 October 2020, with Resolution 4/20 the updated edition of the I.I.S. Charter was approved. The update became necessary to give coherency to the document which, approved initially in 2002, had over time undergone repeated additions aimed at adopting measures of ARERA and of the Mayors’ Conference issued subsequently. The new Charter confirms the improved contractual quality standards compared to those issued at the national level by ARERA with Resolution 655/2015/R/idr.

Regarding Acea Ato 5, despite the Covid-19 emergency, meetings were held on a weekly basis between the Operator and the Operational Technical Secretariat of the AGB aimed at defining the requirements necessary to arrive at the preparation of an agreed Rate Proposal that contains the recognition of the various extra costs incurred by the Company. On 10 March 2021, the Conference of Mayors for Optimal Territorial Area Authority no. 5 – Southern Lazio, approved the Tariff Structure for the regulatory period 2020-2023 with Resolution 1/2021. This could be in contrast with the tariff adjustment request, prepared pursuant to art. 5, para. 5.5 of Resolution ARERA 580/2019/R/idr, containing the regulatory framework for the 2020-2023 third regulatory period, sent by Acea Ato 5 to ARERA on 15 December 2020, given the continuing inertia coming from OTAA 5.

In fact, note that:

- the deadline for tariff approval by the competent entities, based on the provisions of Resolution ARERA 580/2019/R/idr and subsequent additions made by Resolution ARERA 235/2020/R/idr was set for 31 July 2020;
- the OTAA Operational Technical Secretariat called the Conference of Mayors to approve the 2020-2023 structure by 15 December 2020; for more details, please see the Report on Operations, in the section on the water sector, as well as the Notes, in the Information on Services Under Concession;

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.

At the public hearing held on 29 September 2015, the suspension of the pending judgement and the postponement of the decision to a later date were ordered. This followed 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 (TTM), 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. Owing to the Covid-19 emergency the new public hearing was set for 10 December 2020 inviting the parties to: 1) file documents by 19 November 2020; 2) file briefs by 24 November 2020; 3) file replies by 28 November 2020. The hearing at the Council of State was brought forward to 22 October 2020 inviting the parties to: 1) file documents by 1 October 2020; 2) file briefs by 6 October 2020; 3) file replies by 10 October 2020. A partially favourable judgement, no. 8079/2020 16 December 2020:

- accepted Acea Ato 2’s appeal related to non-recognition of the CCN in relation to other water activities, the only ground for the appeal that the Company had decided not to waive;
- rejected the Authority’s appeal related to financial expenses on adjustments, with reference to which already the Lombardy Regional Administrative Court (RAC) had found in favour of Acea Ato 2;
- accepted the said Authority’s appeal concerning the ground on non-enforceable receivables.

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 Regional Administrative Court against Resolution no. 643/2013/R/idr (MTI), Resolution no. 664/2015/R/idr (MTI-2) and Resolution no. 580/2019/R/idr 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 Chairperson.

As of today we are waiting for the hearing on the merits to be scheduled.

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.

In February 2020, Acea Ato 2 also challenged Resolution 580/2019/R/idr which approved the Tariff Method of the Integrated Water Service for the third regulatory period (MTI-3), reiterating many of the reasons for previous appeals in tariff matters and introducing new ones related to specific aspects introduced for the first time with the new tariff methodology. Other subsidiaries and/or investees of the Acea Group that have challenged MTI-3 are Acea Ato 5, Acea Molise and Gesesa (which did not previously challenge the Resolutions relating to the TTM, MTI and MTI-2). Resolution 235/2020/R/idr for the adoption of urgent measures in the Integrated Water Service, in the light of the Covid-19 emergency was also appealed. Today we are awaiting the scheduling of the hearing.

THE REGULATORY ACTIVITY OF THE LAZIO REGION IN TERMS OF TERRITORIAL PLANNING AND GOVERNANCE OF THE INTEGRATED WATER SERVICE

In relation to the developments on the subject of redefinition of the Hydrographic Basin Optimal Territorial Areas (Ambiti Territoriali Ottimali di Bacino Idrografico – ATOBI), provided for by Lazio Regional Decree 218/18, the only element to be noted is the presentation of a question for an immediate answer (no. 470 of 16 November 2020) in the Regional Council, asking for information on the status of the activities for this purpose. The answer of the Councillor for Public Works and Territorial Protection and Mobility noted the establishment of an internal work Group for the preparation of an outline draft of a Regional Law reordering the Integrated Water Services and, secondly, the Scientific Consultation Committee. As of today, this Scientific Committee has completed the analysis of the draft law and the procedure of legislative initiative actions of the Regional Executive has been launched. At the moment the establishment of the Institutional Consultation Committee is being completed. The delegates of the Mayors' Assemblies of all the OTAs were to be members of this committee, as the list of representatives of the OTA 2 had not yet been received.

We can note also, again in a regional context, that a collaboration between ARPA, ISPRA and ISS has been resolved for monitoring drinking, irrigation and domestic water, in the context of the programme agreement between the M.A.T.T.M. and the Lazio Region for the performance of the actions to make safe and reclaim the Sacco River Basin Site of National Interest (DD 51 of 10 April 2019), published in Lazio Regional Official Journal (BURL) 150 of 10 December 2020.

We present finally the identification at the regional level of new Zones Vulnerable to Nitrates from agricultural sources (ZVNs) under the terms of art. 92, Italian Legislative Decree 152/2006 and of the EU Directive 91/676/EEC. The identification of the areas in which to limit or exclude the use, even temporary, of plant protec-

tion products aims to protect water resources and other sectors relevant for health and environmental protection from possible contamination. The addition of the new vulnerable areas approved with Regional Council Decree 25/2020 (published in LAZIO ROJ – no. 14 of 18/02/2020) adds three new ZVNs to those approved with Regional Council Decree 767/2004, of which one, Tre Denari, falls within the territory managed by Acea Ato 2.

The Regional Council postponed the definition of the action programmes to be implemented in the new vulnerable areas to a later measure.

ELECTRICAL REGULATION

2020 Budget Law

With regard to the energy market, the **2020 Budget Law no. 160 of 27 December 2019** introduced the following changes as from 1 January 2020:

- art. 1, paragraph 5 of the 2018 Budget Law was repealed; this stated that the provisions on the two-year limitation period should not apply in the event of failure or erroneous collection of consumption data resulting from the ascertained liability of the user. With Resolution 184/2020/R/com, the Authority adapted the sector regulations to the provisions established by art. 1, paragraph 295 of the 2020 Budget Law, providing for the modification of the sentence to be included in the annex to the bill containing amounts subject to limitations;
- in case of non-payment of bills, utilities operators have an obligation to send customers notice of non-payment and notice of suspension of supply with advance notice of not less than 40 days, to be sent by registered letter. In order to comply with this obligation, Resolution **219/2020/R/com** was published with which the Authority amended the Integrated Texts on electricity and gas arrears (TIMG and TIMOE) regarding the method of sending the formal notice and the timing to suspend the supply due to arrears. More specifically, on the issue of the formal notice of customers to be disconnected, the Authority introduced the necessary amendments to guarantee the final customer the protection of the 40 days notice envisaged, this period starting from the date of service of the formal notice sent by registered letter with recorded delivery or certified email. This same Resolution therefore eliminated the shortened notice procedure in the case of a customer already in default as it no longer complies with the provisions of the Budget Law 2020. Furthermore, in order to protect sellers from the increased exposure due to the extension of the deadlines for the notice, the Authority modified the compensation system, establishing that starting from the claims sent from 1 October 2020 the Cmor compensation is also recognised at medium voltage points and calculated considering one extra month of possible credit exposure;
- in case of improper conduct by the seller in terms of billing (violations relating to the methods of measuring consumption, execution of adjustments or billing, charges of unjustified expenses or costs for consumption, services, goods not due) that has been ascertained by the competent authority or “duly documented by means of a special declaration, presented autonomously by the customer, even electronically”, the seller is required to:
 - reimburse any amounts already paid by the customer;
 - pay a penalty equal to 10% of the amount in dispute and not due, and in any case not less than €100, within 15 days from the ascertainment/positive response to the customer's declaration “through, at the user's choice, offsets in subsequent billings or a specific payment”.

Biennial limitation

The Authority published Resolution **184/2020/R/com**, with which it

adapted the sector regulations to the provisions established by art. 1, paragraph 295 of the 2020 Budget Law, providing for the modification of the sentence to be included in the annex to the invoice containing amounts subject to limitations, eliminating the case of customer liability. On 27 July 2020 Acea Energia presented an appeal to the Lombardy Regional Administrative Court against this Resolution alleging its illegitimacy because, linking the application of limitation to the mere passing of time, without considering any obstructive behaviour of the final customers, would lead to a not-constitutionally-oriented interpretation of the 2020 Budget Law.

With reference to the settlement of the electricity and natural gas sectors, the Authority published Consultation Document **330/2020/R/com**, with fixed expiry on 9 October 2020, in order to define the mechanisms aimed at settling the economic items connected with biennial limitation. In particular the Authority provided for a mechanism of offsets aimed at keeping vendors unharmed by non-collections due to the application of the biennial limitation not connected to liability of the same (invoicing delays) with specific reference to amounts referred to the raw material, and to dispatching, as well as to the prices of the transport services and the general expenses. The Acea Group presented its observations expressing a general agreement on the solutions proposed in consultation, repeating however 1) the necessary non-retroactivity of the penalties that are intended to be introduced, with consequent socialisation of the offsetting, and 2) the importance of the principle according to which everyone, including customers, is obliged to accept their responsibilities in the context of limitation. The consultation has not yet been followed by any measures.

Covid-19 health emergency

Following the state of emergency relating to the health risk declared by Resolution of the Council of Ministers of 31 January 2020, with Resolution **60/2020/R/com** the Authority ordered:

- for all low voltage electricity customers and for all gas customers with consumption below 200,000 Sm, the suspension until 3 April 2020 of the credit protection regulations for non-performance in payment for bills that had expired on 10 March 2020;
- the establishment of a Covid-19 emergency account with CSEA to ensure the financing of initiatives in support of end customers. For the purpose of replenishing the account, the CSEA may use the stocks available in the other management accounts for an amount of up to € 1 billion, subsequently increased to € 1.5 billion by Resolution **95/2020/R/com**.

With subsequent Resolution **75/2020/R/com**, in implementation of Italian Law Decree 9/2020, in the annex to the same decree the Authority ordered in favour of users located in the 11 municipalities identified as “red zones”:

- the suspension of the payment terms of bills issued or to be issued until 30 April 2020 and of any invoice related to consumption for the period between the entry into force of Italian Law Decree 9/20 (2 March 2020) and 30 April 2020;
- the suspension of credit protection until 30 April for non-performance of payment obligations relating to bills or payment notices that had expired on the date of entry into force of Italian Law Decree 9/20;
- the automatic payment by instalments of the amounts subject to suspension.

Furthermore, in order to ensure the continuity of the disbursement of the social bonus to the citizens who are entitled to it, with Resolution **76/2020/R/com** the Authority ordered the postponement of the deadline by which customers can request its renewal, providing that for the period from 1 March to 30 April those that renew the request for bonus after the original deadline envisaged by the regulation, but in any case within 60 days after the end of

the aforementioned suspension period, the continuity of the bonuses is guaranteed with retroactive validity from the original expiry date and for a period of 12 months.

In parallel with the actions taken on behalf of final customers, the Authority also adapted regulations to the emergency situation, specifically:

- Resolution **59/2020/R/com** provides for the extension of a series of information obligations for sales companies, and clarified the application of regulations in the event of non-compliance with specific and general quality standards due to force majeure;
- Resolution **74/2020/R/com** suspended until 31 May 2020 the deadlines of the investigation phase and the decision-making phase of proceedings that had already been initiated or would be initiated after the publication of said Resolution, and granted the new deadline of 5 June 2020 with respect to the fulfilment of the decision-making phase that expired in the period between 23 February 2020 and the date of publication of the Resolution itself;
- moreover, with Determination **2/2020 – DACU DMRT**, the Authority postponed the deadlines envisaged by the regulation for the communication of data referred to in articles 30, 32, 36 of the TIQV and 19 of the TIRV. Specifically, it deferred to 30 June 2020 the communication of the information requirements regarding the commercial quality of sales and telephone services for the year 2019.

With Resolution **116/2020/R/com**, the Authority took action on the provision of electricity transport and natural gas distribution services, establishing that:

- if at least 70% of the total turnover has been paid with reference to low voltage withdrawal points, the regulation of defaults related to payment for transport bills due in April 2020 is suspended and the terms of the reminder or warning are extended by an additional 15 working days for transport bills due between 10 and 31 March 2020;
- the suspension of the enforcement of the guarantees provided, or, in the absence of a guarantee provided, warnings to comply, if at least 80% of the amount of the distribution invoices due in April 2020 have been paid;
- the phase of the default procedure in place on the date of entry into force of the Resolution and relating to payments due from 10 March 2020 is extended by 15 working days;
- in the electricity sector, in order to meet the requirement of regular payments, with regard to the guarantees provided, the distributor shall not take into account delays for transport invoices due in April 2020 (if at least 70% of turnover is paid with regard to low voltage withdrawal points). Furthermore, the user is required to renew the guarantees at the latest by the end of the third month prior to the expiry of the guarantee. In cases of request for an increase/presentation of a guarantee, the terms are extended by an additional 15 working days;
- in the gas sector, the deadline for adjusting the financial guarantee for loss of rating requirements or due to an increase in redelivery points is extended by an additional 15 working days;
- in the event of a decision to downgrade ratings as a result of the current emergency, the minimum BB+ level of Standard&Poor's Corporation or Ba1 of Moody's Investor Service will be provisionally recognised, and for the electricity sector the BB+ level of Fitch Rating will be assumed, or in any case equivalent levels;
- distribution companies have the right to pay only a portion of the general system charges actually collected: 80% of the turnover relating to low voltage withdrawal points for the electricity sector and 90% of the total turnover for gas.

With subsequent Resolution **117/2020/R/com**, the Authority amended and supplemented Resolution 60/2020/R/com, ordering:

- the extension until 13 April 2020 of the blocking of all possible procedures for the suspension of electricity and gas supplies due to late payment initiated by the previous Resolution;
- the obligation to offer the payment by instalments of the amounts subject to formal notice for those using standard services, those with PLACET contracts as well as facilitations for sending the bill in electronic format;
- that operators have the right to send bills even in electronic format to those customers/users who have made their email or mobile phone number available, indicating the payment methods and communicating the obligation to offer them if they choose to activate both an automatic debit mode and the method of issuing bills in electronic format.

Finally, with Resolution **121/2020/R/eel**, the Authority amended – at least temporarily and until 30 June 2020 – the current regulation of imbalances with the intention of mitigating the increased negative effects on operators of imbalances that occurred during this emergency, an emergency that caused both a drastic fall in electricity consumption and a lasting increase in scheduling difficulties for dispatching users due to a discontinuous resumption of operations not manageable through normal forecasting. The Authority established that operators can submit their comments by 15 May 2020. The Acea Group presented its observations noting that the methods of measuring the imbalances envisaged by the Resolution (cap and floor) could create distortions in the market due to the different method of calculating the two range values, proposing a deductible mechanism instead. With Resolution **207/2020/R/com**, the Authority confirmed the transitional valuation of the current imbalances during the Covid-19 epidemiological emergency envisaged by Resolution **121/2020/R/eel** for the period from 10 March 2020 to 30 June 2020, considering these forecasts sufficient for the relevant purposes and therefore rejecting all comments on Resolution **121/2020** received from operators.

With Resolution **3/2020 DMRT**, the Authority postponed the deadlines envisaged by the regulation for the communication of data referred to in the TIMR, the TIF and Resolutions **100/2016/R/com** and **555/2017/R/com** for the purpose of combating and containing the spread of the Covid-19 virus. Subsequently, with Resolution **124/2020/R/com** the Authority further amended Resolution **60/2020/R/com**, again extending the procedures for the suspension of electricity, gas and water supplies until 3 May 2020, in line with the Italian Ministerial Decree of 10 April 2020. The deadlines for the identification of invoices that will be compulsorily subject to instalments pursuant to previous Resolution **117** were also adjusted in order to take into account the extension.

With Resolution **140/2020/R/com** the Authority extended the urgent provisions referred to in Resolution **76/2020/R/com** of the Authority on the electricity bonus, gas bonus and social water bonus: for consumers whose bonus expires in the period from 1 March to 31 May 2020, the option is given to renew the application for the bonus beyond the original deadline, extending it until 31 July 2020. Once the application is accepted, the bonus will be guaranteed continuously and retroactively from the original expiry. The renewal has the usual total duration of 12 months.

With Resolution **148/2020/R/com**, the Authority amended Resolution **60/2020/R/com**, extending until 17 May – for domestic electricity customers only and for domestic gas customers with consumption not exceeding 200,000 cubic metres/year – the measures with which it had established the blocking of the suspension of electricity, gas and water supplies.

On the same date, with Resolution **149/2020/R/com** the Authority took action by amending Resolution **116/2020/R/com**, extending until 1 June the period of suspension of protection against user de-

faults with regard to transport invoices, if at least 70% of total turnover has been paid for low voltage withdrawal points. The same suspension period was established for gas users as long as they have paid at least 80% of the invoiced amount. Moreover, the measure states that interest shall not apply in the case of late payment for the period subject to suspension.

With Resolution **177/2020/R/eel**, the Authority:

- deferred to 15 June the deadline for the publication of the detailed plans of the mass phase of H2 2020 and to 15 December 2020 for H1 2021;
- set 15 September 2020 as the deadline for the request for admission to the recognition of investments for 2G smart metering installation plans to be launched in 2021.

Resolution **213/2020/R/com** also provides for a series of temporary exceptions for the year 2020 with respect to the installation plans for 2G smart metering systems in view of the epidemiological emergency and its impact on the replacement of meters.

On 19 May 2020 the **Relaunch Decree Law (Italian Law Decree no. 34 of 19 May 2020)** was published and came into force on that same day. The law included measures affecting the following areas:

- charges for electricity bills for non-domestic low voltage customers with power greater than 3 Kw, providing for the reduction of the expenditure related to the electricity portion by applying only a reduced fixed amount for the months of May, June and July 2020;
- electricity distribution tariffs and metering and general system charges, providing for the transitional redetermination of those tariffs to be applied between 1 May and 31 July 2020.

In implementation of the Relaunch Law Decree, Resolution **190/20/R/eel** was published on the reduction of tariffs for low voltage non-domestic users. With this document, the Authority established that:

- for the months of May, June and July only, the reduction of the metered distribution tariffs and general charges (asos and arim) for other LV users;
- if bills have already been issued for May, any adjustments due pursuant to the Resolution must be made within the second subsequent bill;
- for each month of the period of reference, BTA6 users are granted a refund if the maximum power withdrawn in the month does not exceed 2.0 kW. This refund is granted by the distribution companies to the sales companies by 30 September 2020 and by the latter to customers by 30 November 2020.

Subsequently, with Resolution **192/2020/R/com** the Authority further extended the urgent measures on the provision of electricity transport and natural gas distribution services by amending and updating Resolution **116/2020/R/com**, in turn extended and updated with **149/2020/R/com**. Specifically:

- with regard to electricity transmission bills due in June 2020 and gas distribution bills due after 1 June and until 30 June, the payment threshold for which the suspension of default procedures by distributors is envisaged was raised: for the electricity sector, (from 70%) to at least 90% of the LV points billed, and for the gas sector (from 80%) to at least 90% of the amount billed for gas;
- adjusted the amounts that the distribution companies in turn pay to the system to the new thresholds;
- the provisions on ratings and regularity of payments were extended until 30 June.

With subsequent Resolution **248/2020/R/com** which followed DCO **193/2020/R/com**, the Authority made provisions for the final payment of any amounts only partially paid as a result of Reso-

lution 116/2020/R/com as amended. In particular, the Authority ordered the seller to settle the payments partially made for the transport invoices due in April, May and June in a single payment by September 2020, or in three monthly interest-free instalments due from September. In that same Resolution, the Authority did not confirm the proposal to anticipate the previous General System Charges Mechanism in favour of the sellers because the positions of the various operators were too divergent during consultations and therefore it decided to resume the work of the Operational Forum established at the beginning of 2020 in a more expeditious manner. Finally, with regard to the guarantees of the credit rating, the Authority ordered that the rating of the user (or the Parent Company) continue for a further 12 months from the downgrade if the rating – downgraded as a result of the health emergency – is at least BB+ or equivalent.

Social bonus

As desired by the Authority, with Italian Law Decree 124/19 automatic recognition of the social bonus was established for those entitled from 2021, and with subsequent Resolution 14/2020/R/com and CD 204/2020/R/com the Authority initiated the procedure for defining the implementation of the provisions of the Law Decree. In October 2020 the Authority launched a Focus Group during which it illustrated three possible cases as regards the timing and methods for awarding and disbursing the national bonuses in the automatic mechanism. In particular, as well as a first case (preferred by the operators) that provides for the subsidy period being the same for each year (case in continuity with the current bonus disbursement system) in which, in addition, the disbursement accrues in relation to the period of possession of the point by each vendor, the Authority presented a second case that provides for the disbursement period covering the entire calendar year and for the disbursement being made only and for the entire period of the said vendor in possession of the point at the moment of acceptance of the application by INPS and IIS; finally, in the third case the Authority provided for the subsidy period having start and end date on the basis of the date of transmission and acceptance of the application by INPS and IIS, with the possibility of simultaneous disbursements of several subsidies with different annual accrual.

Economic offsetting of arrears owing 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 (16-bis of the TIV).

Following DCO 49/2019, with subsequent Resolution **119/2019/R/eel** the Authority reinstated the rule governing the mechanism, introducing new provisions.

Among the primary developments, with regard to sales:

- the introduction of a reduction in the amounts compensated through the mechanism if bills containing fraudulent withdrawals are issued more than 45 days (90 days for applications submitted in 2019 on issued in 2016 and in 2020 on issued in 2017) from the date of receipt of the measurement data reconstructed by the distributing company (-10% for each month of delay, up to a maximum of -50%);
- the obligation to issue a separate bill in almost full compliance with the provisions of Bill 2.0 regarding the availability of details and methods of issue.

With the same measure, the Authority therefore specified the timing related to the application to be submitted in 2019 (by September 30, 2019) and regulated the case of fraudulent withdrawals in the absence of a contract, stating that:

- within 3 working days prior to the provision of fraudulent consumption data, the distributor transmits to the IIS (Integrated Information System) the update flow of the OCR for activation following fraudulent withdrawals that contains the identification data of the person to whom fraudulent withdrawals are billed (for this flow, which will come into force from 1 October 2019, the IIS operator has adapted the technical specifications of the OCR update “on condition”);
- within one working day from the transmission referred to in the previous point, the IIS will provide the main utility provider with this flow.

Finally, the Authority 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.

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 higher protection provider.

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

With sentence no. 565, the Lombardy regional administrative court, accepting the appeal filed by Enel, annulled Resolution 119/2019/R/eel in so far as it provided for the retroactive application of the new mechanism for calculating late payment compensation for fraudulent withdrawals.

With Resolution **240/2020/R/eel**, in implementation of the provisions of the regional administrative court, the Authority amended the mechanism to include only bills issued from April 2019.

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 MED, 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.

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

As envisaged by the same law, with Resolution **59/2019/R/com** 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. Purchasing Groups will then be able to search the market for commercial offers, acting as a bridge between sellers and end customers. 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.

From the analysis of the results – considered unsatisfactory – of a demoscopic survey conducted between December 2018 and January 2019 on 3,000 household end customers, with Resolution **197/2019/R/com**, the Authority considered it appropriate to initiate a procedure to identify and put in place further actions complemen-

tary to the notice in the bill, actions that make a stronger impact from a communications point of view and aimed at making customers in the protected market more involved in the evolution of energy markets and the instruments prepared for them, assessing the opportunity to also involve end customers already in the Free Market.

Italian Law Decree no. **162/2019** (the so-called “**Thousand Extensions**”) was approved, establishing a further postponement of the cessation of the price protection regimens to 1 January 2022.

Following the conversion into law of Italian Legislative Decree 162/2019 (the so-called “Thousand Extension”) with Italian Law **no. 8 of 28 February 2020** (in force since 1 March 2020), with regard to the end of the protected market it was established that:

- the protected market for small businesses (an enterprise employing less than 50 people and having an annual turnover or annual balance sheet total not exceeding € 10 million) will end in January 2021;
- the protected market for households and micro-enterprises (an enterprise employing less than 10 people and having an annual turnover or annual balance sheet total not exceeding € 2 million) and the gas standard market will end in January 2022. ARERA must establish the contractually committed power level as the criterion for identifying micro-enterprises, in addition to those already identified by the directive;
- from the aforementioned dates, the Authority shall take measures to ensure service for final customers without an electricity supplier, as well as specific measures to prevent unjustified price increases and alterations in the conditions of supply to protect such customers;
- after consulting the Authority, the AGCM and the parliamentary committees, the MED must adopt a ministerial decree defining criteria and methods for the informed entry of final customers into the market, taking into account the need to ensure competition and the plurality of suppliers and offers in a Free Market.

On 31 December 2020 the MED signed the decree “Free electricity market. Scheme for informed entry of final customers” for small enterprises from 1 January 2021, completing what had already been laid down by the Authority with Resolution 491/2020/R/eel which confirmed what was provided for by ARERA with the exception of the limit threshold, brought to 35% and then updated by Arera with Resolution 28/2021/R/eel. The main subjects dealt with in the decree regard:

- the launch of information campaigns for all types of final customers, which will involve many different institutional bodies in collaboration with the industrial organisations and consumers’ associations;
- the provision for six-monthly ARERA monitoring, for the period 2021-2022, on the evolution of customer behaviour, the trend in prices offered, the transparency and advertising of offers and the associated services, assessing the introduction regulatory measures aimed at strengthening the effectiveness of instruments for the comparability of offers. This monitoring will take place starting from 1 July 2021 and up to 31 December 2022;
- the simplification of conciliation procedures and the treatment of complaints by ARERA and AU;
- the confirmation of operations of the Gradual Protections Service for small enterprises starting from 2021, to be assigned through competitive procedures starting from July 2021, specifying that:
 - the identification of territorial areas must be characterised by a balanced level of risk connected with arrears or by dimensional uniformity in terms of volumes;
 - the maximum volume assignable in a tender procedure to a single operator of the whole country is 35%, contrary to what was provided for by ARERA in Resolution 491/2020/R/eel;
 - the provision for specific incentive mechanisms to recover

arrears on the basis of the specific nature of the customers;

- it confirms the three-year duration of services assigned in a tender procedure;
- it confirms the transitional regimen up to June 2021;
- ARERA must prepare a periodic report on the implementation of the gradual protections service and on the results of the competitive procedures.

Finally, note that on 20 February 2021, the date set for the protected market for domestic customers and micro-businesses was extended from 1 January 2022 to 1 January 2023. In fact, the Chamber’s Constitutional Affairs and Budget commissions approved amendment 12.110 to the “Thousand Extensions” Decree Law, transformed into law on 2 March 2021. This was the fourth extension to the start date for the free electricity market.

Mechanism for recognising general system charges not collected in the electricity sector in favour of operators

With Resolution 32/2021, ARERA defined the mechanism for recognising general system charges not collected in the electricity sector, both for the previous period (from March 2016) and for coming years.

The mechanism is structured into annual sessions and at the time of each session an operator can choose between:

- the ordinary mechanism with 100% reimbursement (90% for especially inefficient operators), after specific quantification of amounts not collected;
- the simplified mechanism with 75% reimbursement, with quantification on the basis of accounting documents and company estimates of amounts not collected.

The first session, which will allow for recovery of uncollected amounts for invoices issued after 1 March 2016, provided they are overdue for at least 12 months, will begin in May 2021.

The Company has begun various actions in order to obtain recognition of these items, the economic effects of which will be seen starting in financial year 2021.

Transitional service for non-domestic customers

The Authority, with Resolution 491/2020/R/eel (following Consultation 220/2020/R/eel), adopted provisions to ensure from January 2021 the provision of the Gradual Protections Service to small enterprises of the electricity sector pursuant to Italian Law no. 124 of 4 August 2017, providing for a provisional period, from 1 January 2021 and up to 30 June 2021, in which the service will be operated by greater protection providers in the territorial area of respective competence, while, starting from 1 July 2021, the service will instead be provided by providers selected through competitive procedures and for the duration of three years.

The Authority identified the contractually committed power level of more than 15 kW as first discriminant for transition to gradual protections. Therefore from 1 January 2021 micro-enterprises with power of more than 15 kW, as well as small enterprises, are served in the gradual protection service.

The structure of the economic conditions of the provisional assignment period is similar to that of the current Greater Protection Service and established by ARERA, but different from the one that will be applied in the assignment period fully in place after the tender procedures have been held, in which the price will be defined on the basis of the outcome of the auctions. The tender procedures will be held with two rounds, with a offer discount mechanism; a maximum ceiling on the economic offer in €/MWh is provided for; this is differentiated for territorial areas, and will be made known at the same time as the outcomes of the procedures, and a minimum limit, expressed in €/MWh made know before the procedures. In addition the Authority provided for a maximum limit to the areas

that can be awarded of 50% (to be adjusted in the light of the MED decree) of the total electricity volumes withdrawn in the 9 territorial areas identified; Lazio constitutes a single area. The greater protection provider will be required to take charge of the service in the event of default of the operator selected in the tender or in the event of a tender without participants.

The tender procedure and the related timing will be defined in the regulation that the Single Buyer (Acquirente Unico) must adopt by 29 January 2021 (pursuant to Resolution 14/21).

The regulation of the gradual protection service intended, from 1 January 2022 for micro-enterprises and household customers will be the subject of a subsequent consultation document.

Under the term of Determination no. **7/2020 – DMRT** the greater protection providers, in relation to the application perimeter, provided Arera with the information necessary for formulation of the economic offer in view of the performance of the competitive procedures for assignment of the gradual protection service.

With Resolution **584/2020/R/eel** the Authority defined the first provisions on the subject of information initiatives for customers of the gradual protection service to be included in invoices – starting from 1 January 2021 – for the entire provisional assignment period and to be notified to final customers at the moment of phoned requests for information.

Modification of the process for termination of dispatching and transport contracts

Confirming what was proposed in consultation 412/2019/R/eel, with Resolution **37/2020/R/eel** the Authority established that starting from 1 January 2021, in the event of a termination of a dispatching contract and/or a distribution contract with respect to a sales company in default with respect to the operator, the activation of the service of last resort will take place from the day following the communication of the Resolution to the Integrated Information System (IIS) by Terna or the distribution companies, zeroing the termination time that was previously 17 working days.

In case of recourse to the service of last resort, it established specific financial conditions (“Omega” parameter equal to zero) such as not to penalise the end customer, for a transitional period that does not go beyond the end of the last day of the month following the month in which the service was activated. The protection providers would be reimbursed for the application of these “discounted” conditions.

Moreover, the Authority established that the end customer will still be able to access the fast switching procedure (i.e. exit from the service of last resort) following the signing of a new supply contract, and will only be able to use it until the last day of the sixth month following the service’s date of activation. In the event of a request for switching by the new transport user, a specific clause is foreseen that will inform that the activation of the supplier of last resort occurred following the termination of the dispatching and transport contract, in order to distinguish this case from the ordinary cases of activation of the service of last resort.

The Authority postponed to a subsequent order the definition of the mechanism to compensate the main utility providers for the difference in pricing envisaged by the Resolution compared to the normal situation. This mechanism will also take into account the charges related to imbalances in the initial period of activation of the service and the reimbursement of non-recoverable charges accrued towards final customers that cannot be disconnected.

Provisions for strengthening of the information obligations of the commercial conduct code and to the advantage of final customers in the retail market

As pre-announced with Consultation Document 564/2020/R/com, the Authority with Resolution 426/2020/R/com provided for the strengthening of the information obligations of electricity

and natural gas suppliers to the advantage of final customers in LV and/or with total natural gas consumption of not more than 200,000 Sm³, in both the pre-contractual stage and the contractual stage, through the revision of the commercial conduct code. These changes will take effect starting from 1 July 2021. Among the main changes the Authority provided for the introduction of a data sheet that summarises the contents of the contract and the new summary price indicators, provided for in order to facilitate the comparison between commercial offers; in addition the Authority provided for the sending of a specific communication in the case of changes in the automatic economic conditions.

Launch of a proceeding for amendment of the Bill 2.0 rules

With Resolution 549/2020/R/com the Authority provided for the launch of a proceeding for amendment of the Bill 2.0 rules in order to pursue the objectives of transparency and understandability for final customers in the light of the important legislative, regulatory and technological innovations that have occurred after its adoption, including the scenario of superseding the price protection service. We are awaiting the subsequent consultation documents on the subject.

Network code

The Authority with Resolution **261/2020/R/eel** amended the standard Network Code of the transport service starting from January 2021. In particular it provided for:

- the reduction of the contractual termination times providing for the elimination of sending of the payment reminder by the distributor; a reduction in the times for sending the notice from 7 to 4 working days; a reduction of the guarantees from the estimate of 3 to 2 months of providing the service; a reduction of the maximum amount covered by the guarantees (from the estimate of 5 to 4 months of providing the service);
- actions on the adjustment of the guarantees. For example in the context of the quarterly checks, the checking threshold for the periodic adjustment of the GAR amount is diversified on the basis of the GAR amount already released; in the case of significant upward adjustment of the exposure, the User that has given a guarantee through the rating must issue a guarantee of a traditional type to cover the portion related the new PODs;
- insurance sureties are permitted only if issued by an insurance institution accredited to operate in Italy that holds a certain credit rating judgement.

The Authority with the same Resolution clarified also that regularity in payments must be checked with exclusive reference to the cycle and rectification invoices, that is only invoices with an already standardised trace. In addition it clarified that distributor companies for checking the regularity must not take into account payment of invoices for which the average days of delay in the payment is less than 4.5 days.

The Authority published Resolution **490/2020/R/eel** following the requests for clarifications that it received in relation to the methods of applying Resolution **261/2020/R/eel**. In particular with Resolution 490/2020/R/eel the Authority intervened in relation to the case of non-payment of invoices by a User that gives as guarantee the rating judgement and at the same time also a so-called “traditional” guarantee for the GARnewPOD amount. In this case, after the notice to perform has been sent by the distributor company, if the user does not make the said payment within the deadlines established by the Code, the distributor proceeds to enforcement of the guarantee and to the request at the same time of reintegration with a so-called “traditional” guarantee for the entire amount to be guaranteed, that is, in practice, the rating guarantee expires and a reintegration corresponding to a maximum of 4 months (GAR + GARmag) is made. If the traditional guarantee is insufficient with respect to the user’s debt exposure, the distributor company, as well as en-

forcing the guarantee, terminates the transport contract. With Resolution **583/2020/R/eel** the Authority intervened to amend the previous Resolution 490/2020/R/eel. In particular if the traditional guarantee is insufficient with respect to the users debt exposure, the distributor company proceeds, at the same time as the enforcement, no longer to the immediate termination of the transport contract, but to a request for reintegration of the guarantee, to be made within the next 7 working days, and to a new notice to pay the amounts of the invoice due within the next 7 working days, after which, if the guarantee is not restored and at the same time the amounts due are not paid in full, the transport contract must be understood as terminated.

Approval of the settlement scheme of the Register of Sellers

The “Annual Market and Competition Law”, no. 124 of 2017 that entered into force on 29 August 2017 provided that sellers of electricity, in analogy with what is already done for the sale of natural gas, must be included in the Register of sellers of electricity, to be established by decree of the Minister of Economic Development on a proposal from the Authority. With Resolution 762/2017//eel, the Authority made a first proposal to the Ministry, which, however, accepting most of the comments raised by the sellers, extensively simplified the text, also obtaining the approval of the Council of State. To be included in the register, sellers must meet certain technical and financial requirements (e.g. regularity of payments, minimum share capital of 100k, and corporate forms) and be of good repute. The draft ministerial decree is currently under consideration by the ministry, which is gathering further comments from the various stakeholders.

In January 2019, with a Resolution approved by the Production Activities Committee of the Chamber of Deputies, the government undertook to approve the register of sellers of electricity as soon as possible. Italian Law Decree no. 162/2019 (the so-called “Thousand Extensions”) was approved, stating that the MED will have the right to exclude a seller from the Register if it finds serious breaches or inconsistencies with the requirements or situations considered critical to the proper operation of the markets and consumer protection. In fact, in agreement with the Authority, the Ministry has been mandated to adopt a decree to establish the criteria, methods and requirements (technical, financial and good repute) for registration and permanence in the Register.

Following the conversion into law of Italian Legislative Decree 162/2019 the so-called “Thousand Extensions” with Italian Law no. 8 of 28 February 2020 (in force since 1 March 2020), it was ordered that by the end of May the MED should adopt a ministerial decree proposed by ARERA and after consulting with AGCM establishing the Register of Electricity Sellers, providing for the procedure for exclusion also to take into account violations and irregular conduct carried out in the sale of electricity, ascertained and sanctioned by the Authorities (ARERA, AGCM, Privacy Authority, Revenue Agency), thus making the application of a sanction grounds for exclusion from the register. Other grounds for removal include situations of serious breaches of or inconsistencies with the requirements, or situations considered critical also in light of the general principles governing the proper operation of the markets and consumer protection.

In November 2020, a parliamentary question was presented in order to solicit the adoption of the Register as it is a necessary consumer protection element in view of the end of the price protection regimens.

Remuneration of electricity marketing and sale activity (RCVsm)

With Resolution **576/2019/R/eel**, the Authority updated the RCV and DISPBT components and the PCV fee with effect from 1 January 2020. Specifically, with regard to the RCVsm component

(specific for operators other than the incumbent) for the Central South territorial area there was an increase in the value of the component to 44.10 €/wp compared to the value of the year 2019 (equal to 42.53) for domestic customers and a decrease in the value to 10.18 €/wp compared to the value of the year 2019 (equal to 11.63) for other uses customers.

With Resolution **100/2020/R/eel**, the Authority updated the provisions for the mechanisms of the TIV, reducing the value of the recognised amounts of the late payment compensation mechanism (art. 16-ter of the TIV), which was reduced from 3.83 €/wp to 1.80 €/wp for domestic customers and from 42.82 €/wp to 19.17 €/wp for other customers. The Authority has also reduced the minimum level of unpaid ratio for other uses beyond which the aforementioned mechanism can be accessed by changing it from the previous 3.56% to 2.98%. With regard to the customer exit compensation mechanism (article 16-*quater* of the TIV), the Authority revised the values of the benchmark that determines both access to the mechanism and the value of the compensation itself. In particular, it revised these values upwards, making access to the mechanism more difficult and reducing the value of compensation.

ARERA unbundling checks

With Resolution 561/2018/E/eel, the Authority approved a programme of controls on the separation of the brand and communications policies for companies operating in the sale of electricity to free customers and protected customers.

Acea Energia was also included in the sample of companies involved in the verification programme envisaged by the Authority and received a request for information regarding compliance with the requirements of article 17 of the TIUF. The company provided the information and documentation requested by the Authority on compliance with the obligations of unbundling of the brand and communication policies between the sale of electricity to standard and Free Market customers. The information provided mainly concerned:

- the obligations to separate the brand between the sale of electricity to the standard market and the Free Market;
- internet websites;
- the organisational structures and staff dedicated to the activity of selling on the open market or to the standard market;
- the forms and letterhead used in communications for customers in the open market and those in the protected market.

As already envisaged in Resolution 561/2018/E/eel, with the subsequent Resolution **96/2019/E/eel** the Authority started the second phase of the controls and carried out an inspection at the branches of piazzale Ostiense and Ostia and at the Company’s headquarters. Acea Energia also provided the additional information requested regarding the separation of the brand and communication policies.

The Authority sent a letter indicating some corrective actions to be implemented by December 2019 with respect to the separation of physical spaces (provide for removable, but not mobile structures and provide for separate access) and the information in the interactive voice responder regarding the end of the protected market, inviting the Company to its offices to present the methods for implementing these actions.

Following the meeting of 16 October, the Authority considered the corrective actions illustrated to be appropriate, which were then formalised with a note dated 4 November 2019. With its subsequent note of 20 December 2019, the Authority definitively approved the proposed actions, which are scheduled to be completed by 31 March 2020. After communicating the changes to the interactive voice responder with the addition of a button dedicated to providing information regarding the end of price protections, Acea Energia informed the Authority that it had also completed the corrective actions relating to the separation of physical spaces ahead of time.

Sanctioning procedure for charging the postal costs for the paper bill

With determination **66/2018/com** dated 15 November 2018, the Authority ordered the initiation of a sanctioning and prescriptive procedure against Acea Energia for charging final domestic customers for the receipt of the paper bill for Free Market offers called “Acea Viva” and “Acea Rapida” in violation of the provisions of Italian Legislative Decree 102/14 and annex A to Resolution 555/2017/R/com.

Acea Energia notified the Authority of the termination of the conduct, updating the economic conditions of the offers in question and presenting the following commitments:

- reimbursement of the amounts already paid by customers;
- making available to electricity customers who were still active and who had paid the disputed surcharge a free consumption analysis service in order to promote greater efficiency in the use of energy;
- strengthening – even through parties external to the Company – the verification of electricity and gas supply contracts that can be selected by domestic customers in terms of compliance with applicable industry regulations.

Following the additions and modifications requested by the Authority, the Company presented a new proposal for commitments that include:

- the return of the amount charged to customers;
- a bonus of € 15 to customers who switch to a web bill;
- a bonus of € 12 spread over a year to damaged customers.

With Resolution **418/2019/S/com**, the Authority declared the new proposal admissible, thus submitting it to the next market test phase. As no comments were received, Resolution **533/2019/S/com** closed the procedure with the approval of the commitments submitted and an indication to comply with them by 17 April 2020 for commitment 1 and also to implement the provisions of commitments 2 and 3 – which will have a duration of 12 months – by 17 April 2020. From the end of February, Acea Energia:

- reimbursed the amount charged to the customers to whom it had applied the surcharge for the receipt of the paper invoice (the reimbursement was completed by 17 April 2020);
- launched the campaign promoting the activation of the web bill by mass market customers active on 19/12/2019 with the recognition of a one-off bonus of € 15 for customers who request it (activity started by 17 April 2020 with a duration of up to 12 months);
- granted active customers within the scope of commitment 1 a discount in the bill of € 1/point of supply/month for a period of 12 months (activity started by 17 April 2020).

Examination of the financial items relating to electricity destined for the states included in the Italian State

Pursuant to Resolution **58/2019/E/eel**, the Authority initiated a fact-finding investigation against Acea Energia with the aim of acquiring information and useful data concerning the management of the financial items relating to electricity destined for the Vatican State. The Company responded to the request for information.

In accordance with this Resolution and pending the conclusion of the aforementioned investigation, the Authority has specified to the Italian Energy and Environmental Services Fund that it should proceed on a transitional basis and subject to adjustment with the equalisation of the costs incurred by Acea Energia for 2017 for the purchase and dispatching of electricity intended for protected customers.

With Resolution **180/2019/C/eel**, the Authority decided to challenge the extraordinary appeal brought by the Azienda Autonoma di

Stato per i Servizi Pubblici della Repubblica di San Marino for the annulment of Resolution 670/2018/R/eel (which updated the transmission tariffs for the year 2019) and Resolution 58/2019/R/eel.

Pending the conclusion of the investigation, the Authority asked the Cassa per i servizi energetici e ambiente – on a temporary basis and subject to adjustment – to suspend any disbursements relating to the equalisation of the costs incurred by Acea Energia for 2018 for the purchase and dispatching of electricity intended for standard market customers.

With Resolution **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. Acea Energia informed the Authority that it had complied with the requirements. Resolution 491/2019/E/eel, moreover, gave a mandate 1) to Terna, the relevant distribution companies and CSEA to recalculate the charges for withdrawals by Vatican City State by applying the criteria highlighted in the preliminary findings attached to the same Resolution 2) to the Director of the Sanctions and Commitments Department of the Authority for the documents resulting from the evidence found. Following this the Authority, with Determination **5/2020/eel**, launched two sanctioning proceedings against Acea Energia and areti. On 12 June 2020, Acea Energia sent to ARERA its proposal for commitments containing the waiver of the receivable accrued to the system, the payment of an indemnity to ARERA and the obligation to send bimonthly reporting for 10 years. Acea Energia is awaiting approval of the commitments by ARERA and completion of the recalculation activities by Terna/CSEA.

Capacity market

On 28 June 2019, the decree on the electricity production capacity market was signed at the MiSE, designed to remunerate power plants kept on standby and otherwise operating below capacity so they can ramp up if required by the system, ensuring both adequacy of the system and security of the supply. In June 2019 the European Commission approved the introduction of stringent CO₂ emission limits for the Italian regulatory system related to the capacity mechanism. The limits for CO₂ emissions will prevent high-emission electricity generating plants such as coal-fired plants from participating in the Italian capacity regulation mechanism.

Resolution **343/2019/R/eel** approved the Regulation prepared by Terna on the methods for enabling and participating in the dispatch service market of contracted consumption units in the capacity market (Ucmc), as well as provisions on tenders to be carried out by 2019.

With Resolution **363/2019/R/eel**, the Authority approved and published the financial parameters of the auctions for the 2022 and 2023 delivery years that Acea Energia participated in, respectively winning 63 and 58 MW of Likely Available Capacity (LAC), i.e. the capacity of each resource considered available for the Capacity Market. The Regulator also approved Resolution **364/2019/R/eel** relating to the verification of compliance with the technical provisions for the operation of the market already consulted by Terna in July, and finally Resolution **365/2019/R/eel** which contains determinations on the consideration to cover the net charges for supplying capacity through the mechanism.

Regulatory measures adopted to deal with the Covid-19 health emergency.

During 2020 the main provisions of the Regulatory Authority for Energy Networks and Environment (hereinafter: the Authority or ARERA) introduced a series of extraordinary measures to counter the Coronavirus (so-called “Covid-19”) epidemic, in keeping with the emergency management measures adopted by the Government all over the country.

As regards electricity distributors, the main measures issued were the following:

- Resolution 116/2020/R/com and subsequent amendments and additions introduced a series of exceptions to the rules on non-fulfilment of contractual obligations pursuant to the Network Code providing for the option for electricity vendors and distributors to pay, for the months April-July 2020, amounts less than those invoiced. Consequently, Resolution 248/2020/R/com defined the methods of reintegrating the network expenses not paid by the traders, and the general system expenses not paid by the DSOs to the CSEA and the GSE;
- Resolution 190/2020/R/eel provided for urgent actions to implement the Italian Relaunch Decree Law on the reduction of expenditures incurred by low-voltage electricity user accounts other than domestic users for the months of May, June and July 2020. The action regarded a reduction in the fixed components of the network tariffs and the general system expenses for customers with committed power of more than 3 kW. The provision had an exclusively financial impact for distributors given that the constraint on revenue was guaranteed by the offsetting mechanism activated with Resolution 311/2020/R/eel;
- Resolution 213/2020/R/ee introduced a series of amendments to the current regulation on the installation of 2G smart metering systems for the year 2020 aimed at avoiding penalties for distribution companies for events arising from Covid-19. The main changes for 2020 concern the preparation of indicative detailed plans for the mass phase, the suspension of penalties envisaged in case of progress below the forecast set out in the Plan, and the suspension of application of the “Information Quality Incentive” matrix. These changes apply also to areti’s Plan, approved by the Authority with Resolution 293/2020/R/eel.

In relation to the impacts of the Covid-19 health emergency ARE-RA, in addition, introduced, with Measure 432/2020/R/com, a whole series of extraordinary changes on the subject of technical quality, resilience, testing of riser cables and automatic indemnities not disbursed by the distribution companies on commercial quality performance not achieved owing to force majeure. More in detail the Authority:

- with reference to the bonus-penalty regulation of the service quality for the semi-period 2020-2023, redetermined, to the advantage of the companies, the annual levels of the number of interruptions without notice and reduced the penalising parameters of the duration indicator for the two years 2020-2021;
- postponed by 6 months the actions of the 2019-2021 Resilience Plan with completion date envisaged between the first half of 2019 and the second half of 2021;
- extended by 6 months also the completion of the census of old riser cables and, more generally, of the three-year testing;
- confirmed the applicability of force majeure for non-observance of the commercial quality standards for reasons directly attributable to Covid-19.

Network losses

With Resolution **449/2020/R/eel** the Authority amended the regulation on network losses for the three years 2019-2021:

- reducing the commercial loss factor recognised in LV which for areti goes down from 2% to 1.83% valid from the equalisation accruing to 2019 and, as a consequence, the percentage of standard loss to be applied to withdrawals of LV final customers which, from 1 January 2021, goes down from 10.4% to 10.2%;
- awarding to the DSOs, for the three years 2019-2021, an equalisation amount equal to the lower between the value obtained counting the energy lost with the selling price to higher

protection providers (PAU) differentiated by month and by band and that obtained from the annual average PAU;

- it does not introduce for DSOs the process of ensuring greater efficiency of commercial losses, unlike what was anticipated in the consultation;
- introduces a mechanism for recognising non-recoverable fraudulent withdrawals on an application by the companies – to be presented in 2022 with reference to the three years 2019-2021 – after checking the existence of the following requisites:
 - the total result of the equalisation in the three years 2019-2021 must be to the debit of the company;
 - the condition pursuant to point 1. must be aggravated by non-recoverable fraudulent withdrawals attributable to the following cases:
 - cases for which interruption of the supply can cause public order problems or put at risk people present in the place and the operating personnel tasked with carrying out the disconnection and for which there is a formal report to the competent authorities;
 - cases of buildings occupied abusively for which there are measures of public authorities that prevent interruption of the supply;
- if the fraudulent withdrawals are in part estimated, it is necessary to specify the estimation criteria adopted, justify their validity and the results through measurements – for a period of at least 6 months – on a representative sample of 10% of the estimated withdrawals;
- fixes a cap on the amount payable to the company equal to the reduction to zero of the total penalty over the three years 2019-2021.

Continuity of the service

With the Integrated Text on output-based regulation in force from 1 January 2020, the Authority introduced the possibility for the DSOs to present regulatory experiments to improve the service quality in particularly critical contexts. A specific feature of these experiments is the suspension of the penalties for the experimental period and their non-retroactive application if the target levels for the indicators of number and duration of interruptions without notice, set by the current regulations, are achieved.

In this context, areti presented its proposal, outlining a process for improving the technical quality indicators different from that defined by the ordinary regulation. This proposal was approved by the Authority with Determination 20/2020 of this past 20 November.

Very briefly, the measure postpones to 2024 the calculation of the bonuses and penalties for the entire four-year period 2020-2023 and provides for the activation of an additional bonus mechanism if the target proposed at 2023 is achieved and the effective annual levels achieved are better than those proposed in the experimentation. Two specifications:

- the total bonus obtained cannot be more than that achievable in the ordinary regulation;
- in the event of non-achievement of the improvement commitment indicated, areti must pay any penalties that it would have incurred in the four-year period, in the absence of an extension.

As regards the 2019 accrual, the national service continuity results were made known with Resolution 462/2020/R/eel; these confirmed for areti a penalty of € 5.4 Mln.

Resilience Plan

With Resolution 500/2020/R/eel the 2020-2022 Resilience Plan sent by areti on 30 June 2020, including the final results of the actions completed in 2019, was approved: for actions already previously included in the 2019-2021 plan and not yet completed the completion dates were confirmed, without taking into consid-

eration the delaying effects associated with the emergency situation in progress.

In addition, Resolution 563/2020/R/eel awarded to the Company the bonus of approximately € 3.1 Mln with reference to the actions completed in 2019.

Energy efficiency certificates and tariff contribution awarded to distributors

On 14 July 2020, Resolution **270/2020/R/efr** was published; this contained the new rules for defining the tariff contribution to cover the costs incurred by DSOs with regard to obligations arising from the mechanism of energy efficiency certificates. The measure confirms the value of the cap on the tariff contribution of € 250/EEC and introduces, starting from the current obligation year, a consideration additional to this contribution, to be awarded to each distributor for each EEC used to comply with its obligations. On the one hand, ARERA repeats that it considers the cap an instrument necessary to limit the changes in market prices, on the other, it considers opportune to provide for an additional consideration in support of distributors in the light of the economic losses that they are forced to incur owing to the scarcity of EECs available. On 13 October 2020 the Company presented an appeal for cancellation of the Resolution.

The Resolution, in addition, introduced the possibility of requesting from CSEA the extraordinary consideration in advance of 18% of the specific target for the 2019 obligation year, in order to finance distributors which having already acquired EECs at the beginning of the period, then suffered the negative effects of the extensions of the end date of the obligation year laid down in the Italian Relaunch Decree Law (30 November 2020). Areti presented an application on 31 August 2020.

In December 2020, Resolution **550/2020/R/efr** confirmed the value of 250 €/EEC for the tariff contribution awarded for the 2019 obligation year and fixed at 4.49 €/EEC the value of the additional consideration.

Tariff regulation

On 13 October 2020, with Resolution 380/2020/R/com, the Authority launched the proceeding to update the criteria for determining and updating the WACC for the second regulatory period (so-called “2nd PWACC”) which will start on 1 January 2022. In the context of the measure, as usual, consultation documents will be made available and, if considered opportune, hearings will be convened for the purpose of acquiring of items of information useful for the formation and the adoption of the regulatory measures. With Resolution 461/2020/R/eel of 17 November 2020 the Authority introduced the mechanism of reintegration of the receivables related to network services, otherwise non-recoverable by the DSOs. The application for admission must be sent to CSEA by 30 June 2021, and the amounts will be disbursed to the companies by 31 August of the same year. The measure gave to companies the possibility of requesting the disbursement of an advance of 50% of the reintegration amount, to be awarded by the end of the year. Areti presented an application to CSEA this past 7 December

In December, in addition, the updates of the obligatory transmission, distribution and measurement tariffs for the year 2021 were made known, as well as the economic condition for providing the connection service.

Standard network code of the electricity transport service

With Resolution **261/2020/R/eel** changes were introduced to the rules on the network code with application starting from January 2021. The main provisions introduced regard the reduction to 4 months of the DSOs’ exposure through reduction of the contractual forms

termination times and, consequently, the amount of the guarantees chargeable to the vendors.

Following the requests for clarification sent by operators to the Authority’s offices on the correct methods of applying the new rules, a subsequent measure **490/2020/R/eel** was published. This introduced, for traders with credit ratings, the obligation to present a supplementary guarantee in the traditional form in cases of a significant increase in withdrawal points served, limited to the new PODs (so-called “GARnewPOD”). With the subsequent further measure **583/2020/R/eel**, ARERA also established that in cases of non-fulfilment by traders, if the traditional guarantee GARnewPOD is not sufficient with respect to the debt exposure of the trader, the DSO is required to proceed, at time of enforcement, to a request for reintegration of the guarantee to be done within the following 7 working days, and to a new notice to perform with regard to payment of the amounts due within the following 7 working days, only after which, in the absence of reintegration and at the same time complete payment of the amounts due, the transport contract can be understood as terminated.

Electric mobility

With Resolution **541/2020/R/eel** the Authority launched national experimentation destined for LV customers, aimed at facilitating the installation of e-car rechargers in private areas.

Acceptance is voluntary and free and access is subordinated to observance of a number of conditions:

- the customer must be at LV with contractually committed power of not more than 4.5 kW and not less than 2 kW;
- the POD must be fitted with a 1G or 2G remotely-managed meter. In this second case, any multi-hour bands set by the vendor must enable identification of the withdrawals made in night, weekend and holiday bands;
- a recharging device must be electrically connected to the meter; this device must at least be capable of:
 - measuring and recording the active recharging power and transmitting this figure to an external subject (e.g. an aggregator);
 - reducing/increasing or reinstating the maximum recharging power;
- customers must give their consent to checks and controls also in their homes and are required to communicate promptly any change to the system or contract that occurs during the experimentation.

The application of the experimentation runs from 1 July 2020 and lasts until 31 December 2023.

Finally, in the context of public electric mobility, we can note the consultation document 201/2020/R/eel with which the Authority first implemented the decree of the Ministry of Economic Development of 30 January 2020, illustrating its first orientations on the subject of participation of electric vehicles in the Dispatching Services Market (DSM), through the recharging infrastructures equipped with vehicle-to-grid technology.

ENVIRONMENTAL REGULATION

Following consultation document 351/2019, on 31 October 2019 ARERA approved Resolution 443/19 containing the first integrated waste management service tariff method 2018-2021.

With reference to the WTR – Waste Tariff Method, the new rules define TARI fees to be applied to users in 2020-2021, the criteria for the costs recognised in the current two-year period 2018-2019 and the reporting obligations.

As in other sectors subject to regulation, the new waste tariff

method refers to ex-post data referring to certain accounting sources (Financial Statements) for the year Y-2 and applied to year Y (including indications of adjustments that permeate the entire algebraic structure of the method) and no longer to forecast data. The new ARERA method applies a hybrid approach, borrowed from other service regulations like electricity and gas, with a different treatment of capital costs and operating costs. Namely:

- capital costs recognised according to a scheme like rate of return;
- operating costs with the application of incentive regulation schemes and the definition of efficiency targets on a multi-annual basis.

Furthermore, as already anticipated in the consultations, the method calls for tariff limits to revenue growth in addition to the introduction of four different schemes that can be adopted by local authorities and operators with respect to the objectives of improving service. More specifically, the method regulates the phases of the integrated waste service as identified: street sweeping and washing, collection and transport, treatment and recovery, treatment and disposal of municipal waste, tariff management and user relations.

With regard to the treatment and recovery and treatment and disposal phases, ARERA specifically established that the criteria for determining the fees to be applied to treatment and disposal plants will be evaluated in subsequent measures, indicating that pending such assessment (to be performed on the basis of the criteria referred to in article 1, paragraph 527, letter g) of Italian Law no. 205/17) for the 2020 TARI the fees for such activities will be applied as follows: a) in the presence of administered tariffs, the tariff approved and/or justified by the competent territorial authority; and b) in all other cases, the tariff charged by the operator of the plant determined as a result of negotiations.

In this first definition of the tariff method, ARERA maintained the algebraic structure of the method established by Italian Presidential Decree 158/1999, including tariff factors corresponding to additional components for the determination of the fees, some of which are as follows:

- limit to the overall growth of tariff revenues, with the introduction of a limit factor for annual variation that also takes into account efficiency gains and productivity recovery;
- an asymmetric approach that takes into account in the measurement and in the calculations of the single cost components: 1. service improvement objectives established at a local level and 2. the possible extension of the operational perimeter; these parameters determine the positioning of the individual operation within a tariff matrix, as follows;
- sharing factor in relation to revenues from the sale of material and energy from waste (between 0.3 and 0.6), and relative to CONAI revenues (between 0.1 and 0.4);
- introduction of an adjustment component for both variable and fixed costs, defined as the difference between the revenues relating to the variable and/or fixed cost components for the year Y-2 – as redefined by the Authority – compared to the tariff revenues calculated for the year Y-2. In the recognition of 2018-2019 efficient costs, this component is modulated through a coefficient of gradation and provides for the payment for the recovery of any deviations through a number of instalments, up to 4;
- introduction of two different rates of return on net invested capital (WACC) for the service of the integrated waste cycle and a differentiated rate of return for the enhancement of current assets. Regarding the WACC of the integrated waste cycle for the period 2020-2021, it is defined as 6.3%. To this value is added a 1% increase to cover the costs arising from the

time lag between the year of recognition of investments (Y-2) and the year of tariff recognition (Y), known as the time lag.

In order to take account of the different initial territorial conditions, as previously with the water sector, the Regulator has introduced a methodology that defines the criteria for the quantification of tariffs within an asymmetrical regulation, where there are four different types of tariff schemes under which each competent entity can identify the most effective solution depending on its objectives of quality improvement and management development currently applicable to operators in the first part of the integrated waste service chain, in particular to the phases of sweeping and washing roads and collection and transport.

The EFP (Economic and Financial Plan) remains the tool of reference for the development of the integrated cycle and for the calculation of TARI tariffs and is prepared by the “integrated waste system operator”, where it is also the Municipality, while “the operators who manage parts of the supply chain make their data available to those who prepare the EFP for the correct elaboration of the entire Plan”. With regard to the Integrated Text TITR – 444/2019/R/rif – Provisions on transparency in the management of urban and similar waste, it is specified that this text defines the provisions on transparency of the management of urban and similar waste for the regulatory period 1 April 2020-31 December 2023. The scope of the intervention includes the minimum information to be made available by the integrated cycle manager through websites, the minimum information to be included in collection documents (payment notice or bill) and individual communications to users concerning significant changes in operations.

As far as the publication of the four European directives is concerned, they provide for amendments to six European directives on waste, namely:

- Directive 2018/851/EU, amending the so-called mother directive on waste 2008/98/EC;
- Directive 2018/850/EU, amending the landfill directive 1999/31/EC;
- Directive 2018/852/EU, amending packaging directive 94/62/EC;
- Directive 2018/849/EU, amending the directive on end-of-life vehicles 2000/53/EC, the directive on batteries and storage 2006/66/EC and the directive on waste electrical and electronic equipment, the so-called “WEEE 2012/19/EU”.

In short, the primary new development that these measures bring to environmental legislation concerns the percentages of separate collection to be achieved in the coming years, in particular up to 2035 (though establishing intermediate steps from 2020 to 2030 and from 2030 to 2035). In particular:

- urban solid waste: the target is to recycle at least 65% by 2035, with intermediate stages of 55% by 2025 and 60% by 2030;
- packaging: the goal is to recycle at least 65% by 2025 and 70% by 2030;
- landfills: the objective is to limit the entry of waste into landfills to a maximum of 10% by 2035. To this end, Member States must endeavour to ensure that by 2030 all waste suitable for recovery or recycling – in particular municipal waste – is not landfilled, with the exception of waste for which landfilling is the best environmental option.

On the subject of landfills, the introduction of article 15-ter to the 1999 directive established that the Commission shall adopt implementing acts to determine the method to be used to determine the permeability coefficient of landfills locally and throughout the area. And the introduction of article 15-quater confers on the Commission

the task of adopting implementing acts to develop a criterion for waste sampling (until the concrete enactment of this new method, Member States use the national systems currently in place):

- separate collection of household waste: important changes are foreseen for the separate collection of household waste, such as textile waste, organic waste and hazardous household waste, not always collected separately at this time;
- waste prevention measures: the directives explicitly provide that Member States must take a series of measures to prevent the production of waste upstream, such as domestic composting and the use of materials obtained from organic waste, to encourage the production and marketing of goods and components suitable for multiple use, and to provide financial incentives to encourage such virtuous behaviour.

These targets may be revised in 2024 (especially in view of the fact that they are considered excessively ambitious for some States that, for example, currently frequently use landfills). In this sense, the legislature has therefore provided that, recognising the significant differences in treatment between different States, it will be possible to grant an extension up to a maximum of 5 years for States that in 2013 prepared for reuse and recycled less than 20% of urban waste or landfilled more than 60% of urban waste).

Finally, the rewording of article 6 of Directive 98/2008/EC on the cessation of the qualification of waste (End of Waste) deserves a brief comment. In particular, with the new amending Resolution, the European Law requires Member States to take appropriate measures to ensure that where a substance or article meets the requirements for End of Waste it cannot be classified as waste.

More specifically, having regard to the competence of the European Commission to define the general criteria for the uniform application of End of Waste conditions, it is established that if the latter does not do so for certain types of waste, Member States may establish detailed EoW criteria for certain types of waste that must take into account all the substance's or object's possible adverse effects on the environment and human health and meet the EoW requirements of the directive. Such decisions must be notified to the Commission by the Member State.

Moreover, the same Resolution also provides that Member States may decide on a case-by-case basis or take appropriate measures to verify that certain wastes have ceased to be such under the conditions set out in the directive, where necessary reflecting the EU EoW criteria and taking into account limit values for pollutants and all possible adverse effects on the environment and human health. Such decisions taken on a case-by-case basis need not be notified to the Commission.

Finally on the subject of EoW we can note the amendment approved on 06/06/2019 and included in the decree known as the Re-Open Building Sites Decree (Italian Law Decree 32/2019, converted with Italian Law no. 1248). In particular, the rule establishes that pending the adoption of one or more decrees containing the EoW criteria for specific types of waste, ordinary permits for waste recovery plants must be granted on the basis of the criteria indicated in the measures governing simplified waste recovery (Ministerial Decree 5 February 1998, Ministerial Decree 161/2002 and Ministerial Decree 269/2005) "for the parameters indicated therein, for the parameters relating to the type, origin and characteristics of waste, recovery activity and characteristics of what is obtained from these activities". Ordinary permits must, on the other hand, identify the necessary conditions and requirements "regarding the quantities of waste admissible to the facility and to be subjected to recovery operations". The Ministry of the Environment is authorised to issue specific guidelines "by decree not of a regulatory nature" for the uniform application of the regulations throughout the country.

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

Sustainable development

The European scenario was characterised by the direction taken by the Commission chaired by Ursula von der Leyen with preparation of the Green Deal, as an integral part of the strategy for implementation of Agenda 2030 and pursuance of the UN sustainable development goals and, at the same time, the whole world had to handle the pandemic caused by Covid-19.

The response adopted by the Commission and transfused into the national systems confirmed the orientation towards the objective of making the European Union the first carbon-neutral area of the planet, socially and economically inclusive and with advanced technological and innovative development, seizing from the planetary health emergency the opportunity and urgency of revising the development and coexistence models.

The evidence and the repercussions generated by the serious situation, in fact, highlighted the risks deriving from the correlations between pollution and environmental degradation and the spread of the virus or the fragile resistance of the welfare systems, and also the effectiveness of certain solutions introduced all over the world to manage the crisis in a resilient way. For example, the generalised lockdowns of economic activities balanced by an unprecedented use of technologies to guarantee the continuity and safety of civil life, at school or at work, or the ability activated by clinical research aimed at creating a vaccine and the cohesion and solidarity shown by all player in civil society – institutions, businesses, local communities, voluntary workers – faced with a common problem. The new awareness and urgency of sustainable growth were confirmed by the main players in the global scenario: Europe, with NextGeneration EU and the important objectives connected with it, strengthened by more stringent limits in countering climate change, but also China, with the commitment assumed on decarbonisation, and the USA, with the relaunch of the Paris Accords confirmed by the new President elected.

Italy is part of this global scenario, and is intent on balancing the relationship between nature and people and on creating inclusive and sustainable development conditions, with important appointments fixed for 2021, in which our country will have a guiding role: co-chairing with the United Kingdom the UN Conference on Climate (COP26), chairing the G20 which will be organised around the three points People, Planet, Prosperity.

Finally, we must mention the role that the segment of water, energy and environmental service industries is called upon to perform to tackle the challenges of environmental protection, social inclusion, economic and civil development of the territories and populations that these involve. Taking into account these developments, Acea continues its development by integrating sustainability in its strategies and organisation, as seen in the approval of the Business Plan and the Sustainability Plan for the period 2020-2024, with an increase in investments related to sustainability targets for a total of € 2.1 billion.

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.

Today, recovery from the pandemic is the central issue that shapes the lives and decisions of all members of society: families and individuals, workers and businesses, public and private institutions. In this context, to limit the spread of the virus, the countries affected

shut down economic activities for a continuous and prolonged period of time during 2020.

This initiative, adopted at the global level, entailed a decrease in carbon dioxide emissions into the atmosphere, enabling the planet to delay the overshoot day, the day on which the earth exhausts the renewable resources available for the year in progress.

In view of these environmental benefits and in line with the European decarbonisation policy, the President of the European Commission, Ursula von der Leyen, on 28 April 2020 said that it was important to use the European Green Deal as the motor of the post Covid-19 recovery.

The Green Recovery is the opportunity to leave the pandemic crisis behind rebuilding the economic system to make it resilient and sustainable.

To this end, on 15 June 2020 the TEG (Technical Expert Group set up by the European Commission to implement the Action Plan for financing sustainable growth) published the five principles on which the post Covid-19 recovery should be based, constructing at the same time an economic system resilient to future threats.

The idea at the base of these recommendations is that the crisis caused by the pandemic is the first of a series of threats to which the population will be exposed owing to the degradation of ecosystems caused by human activities. One of the instruments indicated by the TEG for implementation of the Green Recovery is the EU taxonomy, to identify the areas that need investments to be environmentally sustainable.

Alongside the work done by the European Commission, the Financial Stability Board (an international organisation that controls the global financial system) set up the Taskforce on Climate-related Financial Disclosure (hereinafter TCFD) with the objective of defining a series of recommendations that companies have to follow for reporting the risks and opportunities associated with climate change and for describing the impacts that they generate on the business, in order to respond to the expectations and needs of investors.

Of particular importance in this context are the scenario analyses that companies are called upon to perform and report, in order to assess the future impacts that the climate-related risks/opportunities generate on the company's business.

Governing this phase in a resilient manner and containing the risks of aggravating inequalities among people and a lack of sustainability in development models is essential to finding solutions that truly allow the transformational change that can put us on a development path that is balanced, lasting and widespread.

The focus of national and international institutions has been to put in place initiatives to protect people, both in terms of health protection and prevention and support for income capacity, designed precisely to build an overall sustainable system.

These include European programming and financing instruments being defined that, contrary to what some observers feared, have asserted a preference for investments capable of ensuring a transition that is ecological, socially and territorially inclusive, digital and innovative.

In this context, Acea is continuing to carefully monitor its sustainability plan, and given the strategic nature of the issue it has begun reflecting on how to define the opportunities deriving from the current scenario and its contribution to the creation of shared value.

Development and technological innovation

In Acea, 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 direction, activities were developed in the electrical area, with further progress on the automation and efficiency of processes and on applications in the field of smart metering and smart grids with a

view to smart cities, such as the launch of installation of new digital meters or the PlatOne project on energy flexibility, and in the water sector, with customer-oriented technological innovations, capable of optimising and accelerating the processes of contractualisation, invoicing, payments and communication between operator and customer, improving also the security of remote interactions.

Digital innovation also played a fundamental role for the continuity of the business activity, enabling, thanks to prompt implementation of adequate digital infrastructures, fully effective performance of the remote work of thousands of colleagues. Technology made it possible to perform also the activities of selecting, training, developing, communicating and involving personnel completely remotely, accelerating the process of digitalising the corporate processes and the transfer of new skills over the entire population.

The ecosystem of innovation is constantly overseen by Acea also in the networks of external collaboration and partnerships. Among these, involvement in Startup Europe Partnership, an Open Innovation programme that puts into contact the European Scaleups with businesses, and Open Italy, the co-innovation programme promoted by Elis to combine the innovation needs of Companies in the consortium with the offer of startups, innovative SMEs, university spin-offs and research centres. In 2020 Acea joined InnovUp, a non-profit Association that represents the ecosystem of Italian start-ups, widened to all private and public bodies, which facilitates the enhancement, visibility and growth, to favour the creation of a new Italian entrepreneurial fabric, and ANFOV, an association that promotes discussions between all the entrepreneurial and institutional bodies involved on the telecommunications sector and monitors, analyse and promotes the development of the contiguous ICT scenarios.

Development of human capital

In Acea people are the most important resource. For this reason, they are constantly provided with 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 our Leadership Model upon which the Group's initiatives are built to achieve the goals of the 2019-2022 strategic plan and the sustainability plan.

The Leadership Model, values and behaviours guide and contribute to defining an organisational setting that seeks to promote a constant development of human capital, recognised as a strategic asset for remaining competitive in a changing economic and social context.

It was in fact precisely people, in this difficult period in which the pandemic represented the most complex challenge, who were the driver that enabled the company to continue to provide its services giving continuity to the business with no interruptions. In a few days in fact, thousands of colleagues managed with full effectiveness to work remotely, rethinking processes and activities in a totally digital way, managing to be a team in an enterprising manner and continuing to achieve all the objectives foreseen.

The activities of selecting, training, rewarding, developing, communicating and involving personnel, carried out digitally, contributed to the enhancement of the human capital, accelerating along the pathway of digitalising the corporate processes and the transfer of new skills over the entire population.

To respond better to the challenges that the evolution of the economic and social context is putting before us, Acea is continuing to work on the skills, on new ways of organising the work and on improving the management and development processes in order to support the entire organisation in achieving the corporate objectives defined maintaining a high level of personal satisfaction and well-being. The goal of enhancing people for the growth of the Group is broken down and carried out through three areas of activity:

- professional development, management growth, training and development of skills through a process that, starting from hiring, uses onboarding, training and a performance assessment system to align behaviour with the Leadership Model and the values of the Acea Group in a constant development of human capital;
- involvement of people in the Group's identity through specific initiatives designed to promote employer branding, making Acea increasingly attractive for new talent;
- inclusion and organisational well-being, with the launch of initiatives aimed at making work increasingly "smart" and boosting motivation, potential and satisfaction of personnel, as well as the well-being of employees, recognising the strategic value of diversity, health and the safety of workers.

Sustainable management of the supply chain

Aware of the positive contribution that sustainable supply chain management can offer to protecting the environment, Acea is committed to defining purchasing methods that include intrinsic characteristics of the products and aspects of the process that limit environmental impact and foster initiatives aimed at minimising waste, reusing resources and protecting the social aspects involved in the procurement of goods, services and works defined and used to meet its needs.

Indeed, for several years Acea has been using the Minimum Environmental Criteria, in its calls for tenders including even rewarding aspects that are not mandatory but often decisive in ensuring the maximum achievement of the objectives set.

Furthermore, it engages in the education of its own resources so that the purchasing choices tend toward goods or services with sustainable characteristics, thus stimulating the development of a specific sensitivity towards these aspects, with the aim of having them always present in supplier selection processes.

Acea has always been at the service of the community and the public and therefore puts a high priority on open exchanges with stakeholders and the supply chain to be increasingly efficient in responding to local demands.

Health and safety in the workplace

Acea carries out constant awareness campaigns on the subject, with the aim of profoundly affecting the widespread dissemination

of a culture of safety involving all its employees. It has implemented an advanced risk assessment model, not to mention control and mitigation measures. Acea has also launched a number of initiatives to raise awareness of and involvement in the issues discussed above with its contractors and sub-contractors, key business partners throughout the entire value chain.

Safety seen as strategy, and not only as compliance, is based on the possibility of measuring and monitoring the results in a managerial approach. In the context of the process of continuous improvement that it has undertaken, oriented to the prevention and reduction of injuries, Acea intends to make available to its employees a valid and effective instrument for the purposes of active participation in analysing the trend of indicators; this aspect is often considered a measure of the level of maturity of the culture of safety and the culture of improvement in an organisation. Improvement actions based on the realisation that there are margins to pursue (for example actions to reduce the proportion of some types of injury) and consolidation actions (for example maintaining positive results, growing organisational resilience), represent the natural process of continual improvement in the field of workplace health and safety. A Group RSPP Coordination Committee is active, with the aim of sharing the results of safety performance, experiences, good practices and sustainable solutions for the prevention of accidents in the company. It is also an opportunity to share the corrective actions implemented following safety performance analyses that have found deviations from the objectives set (e.g. worsening of the IFR/IG indices, repeated lack of compliance in the field, etc.). A special H&S Dashboard was also prepared and has become a shared tool for the reporting of occupational health and safety performance. The key performance indicators on the subject of safety in the workplace constitute an important part of the information necessary to determine and explain how an organisation progresses towards its objectives of preventing and reducing injuries.

Safety is at the centre of numerous innovative experiments. Also during 2020 several innovation projects were launched to make the Acea operators increasingly safe. An example of these was the development and use of personal protective equipment fitted with sensors capable of signalling the correct devices (Smart PPE).

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.

31/12/2020	Environment	Commercial and Trading	Overseas	Water	Energy Infrastructures				Engineering and Services	Other	Consolidated total		
€ million					Generation	Distribution	IP	Adjustments	Total	Corporate	Consolidation adjustments		
Revenues	200	1,586	62	1,209	79	577	41	(1)	697	89	131	(571)	3,403
Costs	150	1,514	37	595	34	208	43	(1)	284	74	166	(571)	2,248
EBITDA	50	72	25	614	45	370	(2)	0	413	15	(35)	0	1,155
Depreciation/ amortisation and impairment charges	31	61	13	304	27	156	2	0	186	4	21	0	620
Operating profit/loss	19	12	12	310	18	213	(4)	0	227	10	(56)	0	535
Capex	24	44	3	476	39	282	4	0	325	7	28	0	907

The revenues in the above table include the condensed result of equity investments (of a non-financial nature) consolidated using the equity method, as well as results from equity investments in the gas distribution segment in Abruzzo.

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	19	0	524
Operating profit/loss	21	18	8	252	23	215	(0)	0	238	11	(24)	0	518
Capex	52	43	7	380	19	266	3	0	288	2	21	0	793

OPERATING SEGMENTS

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



ENVIRONMENT OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

Operating data	U.M.	31/12/2020	31/12/2019	Change	Change %
WTE conferment	kTon	416	437	(21)	(4.9%)
Landfilled waste	kTon	32	34	(2)	(5.7%)
Contributions to composting plants	kTon	188	119	69	57.9%
Contributions to selection plants	kTon	65	31	34	108.3%
Intermediated waste	kTon	206	207	(1)	(0.5%)
Liquids treated at plants	kTon	423	317	106	33.5%
M&A contributions	kTon	119	0	119	n.s.
Net Electrical Energy transferred	GWh	320	327	(7)	(2.0%)
Waste produced	kTon	158	119	39	32.9%

Equity and financial results

€ million	31/12/2020	31/12/2019	Change	Change %
Revenues	200.0	182.9	17.1	9.4%
Costs	149.7	130.9	18.8	14.3%
EBITDA	50.3	52.0	(1.6)	(3.1%)
Operating profit/(loss) (EBIT)	19.4	21.1	(1.7)	(7.9%)
Average workforce	619	389	230	59.0%
Capex	23.6	51.9	(28.3)	(54.6%)
Net financial debt	268.0	256.5	11.5	4.5%

EBITDA

€ million	31/12/2020	31/12/2019	Change	Change %
EBITDA – Environment Segment	50.3	52.0	(1.6)	(3.1%)
EBITDA – Group	1,155.5	1,042.3	113.2	10.9%
Percentage weight	4.4%	5.0%	(0.6 p.p.)	

The Environment Segment closed financial year 2020 with an EBITDA of € 50.3 million (-3.1%). This performance is mainly attributable to **Acea Ambiente** (- € 8.8 million) as a result of lower revenues from CIP 6 tariffs in 2019 (specifically, the scheme had been extended until 31 July 2019) for € 19.6 million, partially offset by an increase due to higher tariffs for landfill and greater volumes of composting treated, and the decrease of **Aquaser** (- € 0.9 million). This change is offset by the increase recorded due to the change in scope (+ € 7.8 million) which has an impact both for the first consolidation of **Cavallari** (+ € 2.3 million), **Ferrocarril** (+ € 1.5 million) and **Multigreen** (+ € 0.4 million) and for the increase recorded by **Demap** (+ € 2.2 million) and **Berg** (+ € 1.4 million), which in 2019 were consolidated from July 2019 and from October 2019, respectively.

The average number of employees at 31 December 2020 was 619, an increase of 230 employees compared with 31 December 2019, due mainly to the change in the scope of consolidation. **Acea Ambiente** has increased its personnel by 16 employees.

Investments in the Segment totalled € 23.6 million, (- € 28.3 million compared to 31 December 2019) and primarily comprise investments made by **Acea Ambiente** for works conducted at the San Vittore plants for revamping of the fourth line, the Aprilia plants and for works conducted at the Orvieto landfill site. The reduction attributable primarily to **Acea Ambiente** (- € 29.8 million) is due to investments made in 2019 for revamping of the plants in

Monterotondo (€ 17.9 million) and Aprilia (€ 17.2 million). Finally, the change in the scope contributed to investments with an increase of approximately € 1.9 million.

The financial debt of the Segment stood at € 268.0 million, an increase of € 11.5 million compared to 31 December 2019. This increase is primary attributable to **Acea Ambiente** as a result of cash flows from acquisitions of equity investments that took place in 2020, while the change in scope had an impact of € 1.8 million.

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

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. It should be noted that on 19 February 2020 the region decreed a non-substantial modification measure of the IEA adopted by Decree no. 1314 of 17 February 2020 concerning the increase of the volumes authorised to discharge into public sewerage after appropriate treatment of industrial wastewater and run-off wastewater.

Paliano (UL2): on 19 June 2019 the results of the characterization activities were submitted to the Ministry, with a concurrent request for clearance for demolition of the former purification plant. Based on an analysis of the above results, the Ministry of the Envi-

ronment requested a communication to the Entities pursuant to art. 245 of Italian Legislative Decree no. 152/06 (breaches of legal limits by a party not responsible for the potential contamination). Pursuant to article 245 of Italian Legislative Decree no. 152/06, on 3 September 2019 the aforesaid communication was sent to the various Bodies as requested by the Ministry of the Environment, and on 20 December 2019 the Ministry of the Environment sent the results of the sampling consultation carried out by ARPA Lazio, which substantially confirmed the results obtained by Acea Ambiente.

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 are currently 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.

Currently, activities are in progress in the area for identification of a company to complete analytical characterisation of soils and groundwater for the entire site. For the procedure for assignment of the characterisation activities, expressions of interest have been received in preparation for the call for tenders.

On 16 June 2020 the Municipality of Paliano issued a building permit for some demolition and reconstruction works consisting of the construction of the purification plant, the first rain tanks, the bio-filter, the installation of a photovoltaic plant, a scrubber and the recovery/adaptation of the entire warehouse located there, damaged by a recent fire.

With Determination no. 1003 of 16 September 2020, the Municipality of Anagni issued the landscape authorisation for demolition of the treatment plant and underground tanks.

San Vittore del Lazio (UL3): the waste-to-energy plant is destined for the production of electricity from renewable sources, and in particular from SRF (Solid Refuse Fuel) produced by the treatment of urban waste from the territory of the Lazio Region. The San Vittore del Lazio plant is now the only waste-to-energy plant on a regional scale and represents a strategic terminal for the waste chain.

Regarding procurement of the SRF used in waste-to-energy processes, the Company has established an adequate number of contracts for the year in question, which guaranteed operations of the three Lines without interruption.

Regarding Lines 2 and 3, after expiry of the CIP 6 Agreement on 13 July 2019, electricity sold to the national grid is valued at market tariffs. Electricity sold to the national grid from Line 1 is valued at market tariffs and benefits from the incentive recognised for the quota attributable to the biodegradable portion of the waste.

During the year, lines 1, 2 and 3 of the plant guaranteed regular operation in terms of operating hours.

Expected performance of the plant during the period in question, both in terms of waste treatment and production of electricity, were affected by a delay in relaunching the Line 3 turbogenerator following scheduled general maintenance in October 2020, which required a shutdown.

Revenues from electricity were negatively impacted by lower market tariffs.

Ordinance no. Z00003 of 27 November 2019, expiring on 15 January 2020, which followed the Ordinance of the President of the Lazio Region no. Z00001 of 5 July 2019 and Ordinance no. Z00002 of 30 September 2019, effective immediately ordered the San Vittore del Lazio waste-to-energy plant to operate at the maximum authorised treatment capacity on a daily basis in order to ensure the treatment phase of the waste management cycle, and to postpone scheduled maintenance, with unavoidable effects on operating conditions.

In the context of the Covid-19 health emergency, with Order no. Z00015 of 25 March 2020, the Lazio Region established that Acea Ambiente UL3 receive and launch combustion, for the lines

2 and 3, in addition to SRF, of unseparated urban waste originating from the homes of individuals who have tested positive for SARS-Cov-2, who are self-isolating or subject to mandatory quarantine. Since 23 May 2019, the new temporary Agreement with the Municipality of San Vittore del Lazio has been in force governing the relationship between the company and the Municipality, including payment for the so-called external factors arising from the plant's operation. The validity of this Agreement, awaiting finalisation of the definitive Agreement, has been extended to 31 December 2021. This Agreement also constitutes a settlement of current disputes between the parties.

Following launch of the VAS procedure for the new Regional Waste Plan on 06 August 2019, at the end of 2019, the Regional Council submitted a proposal for approval of the new Waste Plan to the Lazio Regional Council confirming the planning of a fourth line at the San Vittore del Lazio site for an additional waste-to-energy capacity of 50,000 tonnes/year of treatment sludge. The Waste Plan was approved in August 2020.

On 7 August 2020, Acea Ambiente submitted an authorisation request for creation of the fourth line.

The waste-to-energy plant holds Integrated Environmental Authorisation issued by the Lazio Region with Decree no. G00063 of 13 January 2016, with expiry on 25 July 2021 (8 years from expiry of the previous authorisation).

On 17 July 2020, an application was sent to the Lazio Region for extension of the IEA duration for a further 8 years, in addition to the current 8 years, pursuant to art. 29-octies, paragraph 8, of Italian Legislative Decree no. 152/06, as amended by art. 7 of Italian Legislative Decree no. 46 of 04 March 2014, which defines that in the case of an installation that, at the time of issue of the authorisation described under art. 29-quater, is registered pursuant to Regulation (EC) no. 1221/2009 (EMAS), the duration of the authorisation is extended to sixteen years.

Orvieto (UL4): during 2020, the supply of non-hazardous urban and special waste continued normally, implementing the recovery and disposal activities according to the terms provided for therein. During the period under review, the Orvieto hub was involved in three construction projects: 1) construction of the front capping of step 9 of the landfill in operation, 2) construction of the storage shed and, 3) compost maturation and construction of the rainwater collection tank. The aforementioned construction projects have resumed following suspension due to the Covid-19 health emergency. Due to the suspension, the original dates outlined in plans for completion of works have been extended.

Between the second week of April and June 2020, following a fire at the waste sorting plant of ASM Terni, the Orvieto hub was used by AURI to treat unseparated waste managed by ASM. The transfer of ASM unseparated waste ended in the first ten days of June 2020.

In order to allow the revamping of the MSW treatment plant located in Ponte Rio (PG) owned by Gesenu, with Resolution of the Executive Council no. 11 of 04 June 2020, AURI determined that unseparated waste destined for this plant would be treated at the Orvieto hub. This treatment began on 15 June 2020. With its subsequent note, Prot. no. 007338 of 02 September 2020, AURI postponed the end of the above transfer to 26 September 2020 (the transfer was initially planned to end on 10 September 2020). On 27 August 2020, works were completed for construction of the rainwater collection tank pursuant to Directive no. 7019 of 05 July 2020.

On 16 September 2020, works were completed for the construction of the front capping of step 9 of the landfill in operation.

Monterotondo Marittimo (UL5): in March 2020, the revision of the new PM&C was sent for final approval, which transposed the provisions of ARPAT's technical contributions of November 2019

and February 2020, given as part of the non-substantial modification procedure initiated by Acea Ambiente in July 2019. The procedure was formally completed with final notification of Decree no. 10592 of 14/07/2020 of the Tuscany Region.

On 27 August 2020, the documentation was submitted for review in the context of renewal of the IEA in force, in line with the provisions of the calendar for submission as indicated in annex 1 of the Decree of the Tuscany Region no. 16905 of 25 October 2018, also confirmed with Decree of the Tuscany Region no. 8675 of 12 June 2020.

The first services conference was called for 17 November 2020 following which additional documentation was requested and subsequently submitted.

As a result of the Covid-19 emergency, in March 2020, the personnel of subcontractors and suppliers of the Contractor involved in technical management returned to their places of residence and therefore, in order to avoid suspending plant operation, with the obvious consequences in terms of continuity of the process (interruption of aerobic and anaerobic treatment, management of outputs and leachates, etc.), the Contractor was temporarily provided with Acea Ambiente personnel for a period of approximately 15 days.

The Covid-19 emergency led to delays in the start-up and testing phases of the plant by the contractor with consequent impacts on inputs and economic results.

Management of the plant passed to the operational management of UL5 on 29 July 2020, following completion of approval tests on performance by the contractor.

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 October 2019. Operationally, with the temporary suspension of the deliveries, the last composting cycles ended in June 2020.

The tender procedure was completed and the aforementioned works for the adaptation of the plant to the requirements of the Consorzio di Bonifica Agro Pontino were assigned following verification of the adequacy of the tenders. The works were handed over to the company on 24 June 2020

Pending the resumption of plant activity in its new configuration, scheduled for January 2024, all UL6 Operating Personnel were progressively transferred to the UL7 composting plant in Aprilia, with the last movements taking place on 15 June.

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.

On 20 December 2019, once all technical and administrative ac-

tivities 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.

Start-up began in 2020 and will end with the commissioning and functional testing.

In the first months of operation of the new section, some management problems arose that led the Company to find disposal spaces at authorised plants that, due to force majeure (Covid-19 emergency) the contractor justified by the departure of some Operating Personnel from the site. This has inevitably led to delays in the start-up and testing phases of the plant and the loss of production, resulting in considerable economic damage.

With the end of the lockdown activities resumed with greater continuity and the presence of personnel, but for the moment the contractor has still not been able to conclude the commissioning of the plant and the start of testing. On 5 June, also following some episodes that indicated a superficial approach by the Contractor, a warning was sent to comply with the ATI, giving it 30 days to resolve the various problems and to bring the plant to a point where commissioning could be commenced. Acea Ambiente made a formal claim against TME for economic damage and penalties due to delays, failures in machinery performance and management errors.

After an extremely challenging start-up phase, the contractor announced launch of performance testing on 30 November 2020. Performance testing is governed by a testing protocol (regarding execution and results) with a minimum duration of 90 days.

With Directive no. G14240 of 26 November 2020, the Lazio Region communicated successful completion of the review, at the same time requesting sending of all documentation updated and aligned with the latest additions. This documentation was sent on 22 December 2020 and issue of the new authorisation is therefore awaited.

In contrast, the existing plant section is operating continuously, partially compensating for the limitations of the new plant line.

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 and Buonconvento were regularly carried out, performing the treatment of special non-hazardous waste in accordance with IEA specifications. During the year, the technical management of the plants and the performance of the purification and waste treatment services have undoubtedly been facilitated by the recent supply of new machines for the mechanical pre-treatment of waste and by the priority restoration works carried out during 2019, but unfortunately they are still strongly penalised by the operation of the mechanical dehydration section of the sludge and the chemically active waste treatment section, the upgrading of which was planned in 2020 and whose design is currently under way. Since these projects can be classified as modifications that must be previously authorised during the IEA review phase, the start of works is only foreseen after the conclusion of the authorisation assessments, expected in the first half of 2021.

During the year, further efforts were in any case made to acquire residual treatment capacity in the suspended-biomass biological segment and to make it more efficient in terms of electricity consumption. Replacement of the bed of oxygenators of the second oxidation reactor allowed a significant economic saving equal to approximately 25,000 kWh/month. Similarly, evident increased oxidative capacity for the segment allowed an increase in the flow of waste sent for treatment.

In September, mechanical cleaning of the tank for storage and homogenisation of waste of the biological treatment line was started, using mechanical dehydration. In compliance with the provisions of the Arpat inspection report of 31/01/2020, in February the ac-

tions to mitigate the odorous emissions potentially present in the Chiusi Scalo plant were defined.

Aquaser: mainly operates, as a joint venture, as a waste intermediary with its Customers/Shareholders belonging to the Acea Group. During the period of reference, 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. It also manages individual orders related to the service of loading, transportation and recovery/disposal of waste or soil improvers for the company Acea Ambiente, as well as other ancillary activities on behalf of third-party customers (mainly transport services). The recovery activities are carried out through energy recovery, conditioning or composting plants of third parties, and in part at the plants of the Parent Company, while disposal activities are almost all carried out at treatment plants/landfills of third parties.

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 clean-up 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 33 or so Forced Waste Selection Centres (CSS) 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.

Separated 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.

Separated collection of plastic packaging in Italy recorded approximately a 4% increase in 2020 compared to volumes for the previous year, with approximately 1,435,000 tonnes collected. During the year, a total of 65,082 tonnes of materials were received, an increase of approximately 7% compared to volumes for the previous year. The largest increase was recorded for multi-material collection (+ 9.8%) as a result of the contract signed in the second half of 2019 with the CISA consortium, which in 2020 delivered all multi-material collected at the company plant, while single-material volumes recorded an increase of approximately 5%.

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. As in 2019, again in 2020 the plant confirmed its structural solidity by processing a quantity of liquid waste that was almost equal to the amount authorised.

Ferrocarr, Cavallari and Multigreen: April saw the completed acquisition of 60% of the capital of the companies Ferrocarr S.r.l. and Cavallari S.r.l. (which holds 100% of Multigreen S.r.l.), engaged in the storage, treatment and sorting of waste. These companies, which own four plants with a total authorised capacity of over 145 thousand tonnes per year, operate in the provinces of Terni and Ancona, carrying out sorting and recovery of paper, iron, timber, plastics and metals. They are also active in the management of the separated collection of production and packaging waste as well as in the disposal of waste, mainly on behalf of Corepla (“National Consortium for the Collection, Recycling and Recovery of Plastic Packaging”). The economic value of the transaction, in terms of enterprise value for 100% of the companies, is € 25 million. Finally, it is noted that on 11 December 2020 the notary signed the deed of merger by acquisition of the company Multigreen S.r.l. by the company Cavallari S.r.l., with validity for civil and tax purposes from 1 January 2021.

COMMERCIAL AND TRADING

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

Operating data	U.M.	31/12/2020	31/12/2019	Change	Change %
Electrical Energy sold – Free	GWh	5,051	4,235	816.30	19.3%
Electrical Energy sold – Protected	GWh	1,995	2,219	(224)	(10.1%)
Electricity – Free Market customers (P.O.D.)	N/1000	437	399	38	9.4%
Electrical Energy – no. Protected Market customers (P.O.D.)	N/1000	749	786	(37)	n.s.
Gas Sold	MSmc	165	140	25.40	18.2%
Gas – no. Free Market customers	N/1000	212	192	20	10.4%

Equity and financial results

€ million	31/12/2020	31/12/2019	Change	Change %
Revenues	1,586.0	1,619.3	(33.3)	(2.1%)
Costs	1,513.5	1,550.1	(36.6)	(2.4%)
EBITDA	72.4	69.1	3.3	4.8%
Operating profit/(loss) (EBIT)	11.8	18.3	(6.5)	(35.5%)
Average workforce	373	470	(97)	(20.6%)
Capex	44.1	43.1	1.1	2.5%
Net financial debt	(95.7)	(53.2)	(42.5)	79.8%

EBITDA

€ million	31/12/2020	31/12/2019	Change	Change %
EBITDA – Commercial and Trading Segment	72.4	69.1	3.3	4.8%
EBITDA – Group	1,155.5	1,042.3	113.2	10.9%
Percentage weight	6.3%	6.6%	(0.4 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 2020 with an EBITDA of € 72.4 million, an increase of € 3.3 million compared to 2019. The increase is primarily attributable to **Acea Energia** (+ € 3.5 million), as a result of an increase in the energy margin (+ € 6.3 million) offset by greater labour costs attributable largely to the effects of the **Acea8cento** valid from 1 August 2020, which required direct employment of a portion of its personnel. It is also noted that there were lower revenues from margins for connection fees due to slowing of activities requested by customers in the lockdown period, and lower revenues relative to the 2019 payment by CSEA of customer-exit compensation.

With regard to the effects on the primary margin, the increase recorded by **Acea Energia** derives from opposing effects. In detail, the energy margin related to the **Free Market** recorded an improvement of € 8.6 million compared to 31 December 2019, mainly due to the largest customers managed in the mass market segment, despite the negative impact of the Covid-19 health emergency from March, which resulted in a significant reduction in unit margins for Business customers (micro, large and top). The **gas market** generated an increase in margins of € 5.9 million compared to 31 December 2019 due to the combined effect of a higher number of customers managed and higher margins in the mass market segment. The energy margin relating to the **optimisation** of energy flows is in line with the previous year. This margin also includes the activities of buying, selling, exchanging and trading electricity, heat, natural gas, methane and other fuels and energy carriers, from any source produced or acquired, for own use or for

third parties. The energy margin relating to the **standard market** decreased by € 8.1 million compared to 31 December 2019, mainly due to the revision of the value recognised for the mechanism for offsetting arrears as defined by ARERA Resolution no. 100/2020 of 26 March 2020, and for the remainder both for minor customers served and for the updating of the tariff components for the remuneration of sales established by ARERA Resolution no. 576/2019 of 27 December 2019.

Operating profit/loss saw a reduction of € 6.5 million, primarily attributable to greater amortisation/depreciation (+ € 7.8 million) and greater provisions in the period mainly for **Acea Energia** and attributable for commitments towards ARERA as a reimbursement to the system with reference to the procedure aimed at ascertaining violations of the regulation of the financial items relating to electricity destined for the Vatican City State (€ 0.9 million) and to supplementary and performance bonuses to be paid to agents (€ 1.0 million) revenue taxes and duties (€ 0.2 million).

With reference to the workforce, the average number at 31 December 2020 stood at 373 employees, down compared to 31 December 2019 by 97 employees. The change is primarily due to effects of liquidation of **Acea8cento** (- 135 employees) only partly offset by transfer of a portion of the personnel to **Acea Energia** (+ 37 employees).

Investments in the Segment amounted to € 44.1 million, an increase of € 1.1 million compared to 31 December 2019, and mainly refer to € 24.8 million for the cost of acquiring new customers in accordance with IFRS 15, € 13.6 million for IT implementation

projects and € 4.0 million for implementation of the new Customer Relationship Management system.

Net debt at 31 December 2020 was positive, standing at € 95.7 million, an improvement of € 42.5 million, mainly due to **Acea Energia** (+ € 44.7 million) and primarily attributable to the dynamics of operating cash flow influenced by greater inflows from trading activity partially offset by lower receipts during the Covid-19 emergency and lower regulatory inputs.

SIGNIFICANT EVENTS FOR THE 2020 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 TERNIA. 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 2020 Acea Energia purchased electricity from the market for a total of 9,796 GWh, of which 8,100 GWh through bilateral contracts and 1,696 GWh through Borsa, for resale to end customers of the Free Market and for the optimisation of energy flows and the purchasing portfolio.

Transfer of Water Customer Care Branch

On 24 June 2020, the deed of Transfer from Acea8cento to Acea Ato 2 of the business unit relating to the activities carried out for companies operating in the water sector (“Water Customer Care Branch”) was formalised with effect from 1 July 2020.

Following the sale of the business unit, a total demerger was also envisaged to transfer the business units relating to the activities carried out for companies operating in the energy sector and minor services respectively for Acea Energia (Free Market and Standard-Offer Market) and areti (Acea Produzione, Acea Centralino and areti – Gestione Illuminazione Perpetua).

The total Demerger operation involves the transfer of all Acea8cento assets, including resources and related assets, to the Beneficiary Companies with effect from 1 August 2020.

Electricity distribution

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

In 2020, Acea Energia sold electricity on the standard-offer market for a total of 1,977 GWh, with a 10% reduction on a trend basis. The number of withdrawal points totalled 738,989 (774,823 at 31 December 2019). The sale of electricity on the Free Market amounted to 4,572 GWh for Acea Energia and 479 GWh for Umbria Energy, for a total of 5,051 GWh, with an increase compared to last year of 19.3%, primarily related to the B2B segment.

In addition, Acea Energia and the other sales companies of the Group sold 165 million Sm³ of gas to end customers and wholesalers which involved 212,234 re-delivery points, while at 31 December 2019 they were 192,107.

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

Proceeding PS9815 of the AGCM for unsolicited activations: 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 1-bis, of the Consumer Code). In accordance with Directives 2009/72 and 2009/73, it follows that ARERA is not competent to sanction such conduct. On 28 February 2020 Acea Energia received a communication that the Lazio Regional Administrative Court set a public hearing for 20 July 2020 for the annulment of the fine. On 24 September 2020 the sentence was received with which the Lazio Regional Administrative Court rejected the appeal submitted in 2016 by Acea Energia with regard to the AGCM order on the HHV regarding unsolicited activations of electricity and gas supplies.

On 23 December 2020, an appeal for the sentence of the Lazio Regional Administrative Court to be overturned was submitted.

Proceeding A513 of the AGCM for abuse of dominant position:

on 17 October 2019 the Lazio Regional Administrative Court issued sentence no. 03306/19, which upheld the appeal brought by Acea SpA and its subsidiaries and, as a result, annulled sanction measure no. 27496 of 20 December 2018 that found that Acea SpA and its subsidiaries 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 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.

On 14 February 2020 the cross appeal was filed with the restatement of the grounds of appeal that were taken up by the judgement of first instance. More specifically, in the first part the appeal focuses on the sole ground of appeal rejected by the Lazio Regional Administrative Court concerning the lack of investigation regarding the definition of the relevant market; in the second part, it proposes – thus covering them in full – the fourth to seventh grounds of the appeal that the Regional Administrative Court declared “absorbed”, having considered sufficient the acceptance of the second and third grounds of the appeal for the annulment of the fine.

On 30 April 2020 Acea received a communication in which AIGET, on 23 April 2020, filed a formal instrument of incorporation in support of AGCM’s appeal.

Proceeding PS10958 of the Antitrust Authority (AGCM):

on 21 April 2020, the AGCM sent Acea Energia a request for information regarding “each commercial offer related to electricity and natural gas services, proposed to domestic users and micro-enterprises, starting from H2 2019 until Q1 2020”, in particular: 1) copy of the technical and financial conditions – TFC – and the general conditions of supply – GCS – related to the aforementioned commercial offers, 2) number of contracts signed by domestic users and micro-enterprises for each commercial offer proposed in the period considered; 3) copy of promotional messages relating to the same commercial offers disseminated through the different communication channels (web, radio, TV, advertising brochures); 4) copy of the scripts used by sales agents in the same period (H2 2019-Q1 2020) to propose the aforementioned commercial offers to customers, both via telesales and door to door.

On 23 April 2020, following the request, the Company sent the AGCM a communication in which, in view of article 103 of Italian Legislative Decree no. 18 of 2020 and the Bulletin on the interpretation of article 103 of Italian Law Decree no. 18 of 17 March 2020, as amended by article 37 of Italian Law Decree no. 23 of 8 April 2020, approved by the Board of Authorities at its meetings on 1 April and 10 April, it requested confirmation that the deadline for responding to the request for information was suspended and became effective only from 16 May 2020.

Following telephone conversations – in the absence of a formal response from the AGCM to the Company's aforementioned request – the Authority agreed to a postponed deadline for submitting the required documentation.

On 21 May 2020, Acea Energia therefore collected all the required documentation and submitted it to the AGCM, together with a response illustrating the criteria used to collect the documentation.

Fact-finding investigation concerning the financial items relating to electricity destined for the States within the Italian 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 management of the financial items relating to electricity destined for Vatican City State.

In accordance with this Resolution and pending the conclusion of the aforementioned investigation, the Authority has specified to the Italian Energy and Environmental Services Fund that it should proceed on a transitional basis and subject to adjustment with the equalisation of the costs incurred by Acea Energia for 2017 for the purchase and dispatching of electricity intended for standard-offer-market customers.

With Resolution 180/2019/C/eel, the Authority decided to challenge the extraordinary appeal brought by the Azienda Autonoma di Stato per i Servizi Pubblici della Repubblica di San Marino for the annulment of Resolution 670/2018/R/eel (which updated the transmission tariffs for the year 2019) and Resolution 58/2019/R/eel.

Pending the conclusion of the investigation, the Authority asked the Cassa per i servizi energetici e ambiente – on a temporary basis and subject to adjustment – to suspend any disbursements relating to the equalisation of the costs incurred by Acea Energia for 2018 for the purchase and dispatching of electricity intended for standard-offer-market 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. Acea Energia informed the Authority that it had complied with the requirements. Resolution 491/2019/E/eel, moreover, gave a mandate 1) to Terna, the relevant distribution companies and CSEA to recalculate the charges for withdrawals by Vatican City State by applying the criteria highlighted in the preliminary findings attached to the same Resolution 2) to the Director of the Sanctions and Commitments Department of the Authority for the documents resulting from the evidence found. As a result of this, with Determination 5/2020/eel, the Authority initiated two sanction proceedings against Acea Energia and *areti*. On 12 June 2020, Acea Energia sent ARERA its proposal of commitments, including waiver of the amount receivable accrued in relation to the system, payment of compensation to ARERA and the obligation to send two-monthly reporting for a period of ten years. Acea Energia is awaiting approval of these commitments from ARERA and completion of the recalculation activity by Terna and CSEA.

OVERSEAS

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

Operating data	U.M.	31/12/2020	31/12/2019	Change	Change %
Water volumes	Mm ³	41	43	(3)	(5.8%)
Volumes fed into the grid	Mm ³	79	80	(1)	(0.9%)
Number of customers (user accounts served)	n.	121,172	120,795	377	0.3%

Equity and financial results ⁱ	31/12/2020	31/12/2019	Change	Change %
€ million				
Revenues	62.4	48.4	13.9	28.8%
Costs	37.1	31.5	5.5	17.6%
EBITDA	25.3	16.9	8.4	49.6%
Operating profit/(loss) (EBIT)	12.1	7.7	4.4	57.8%
Average workforce	987	814	173	21.2%
Capex	3.1	7.0	(3.9)	(55.9%)
Net financial debt	(9.0)	(4.5)	(4.5)	99.7%

EBITDA	31/12/2020	31/12/2019	Change	Change %
€ million				
EBITDA – Overseas Segment	25.3	16.9	8.4	49.6%
EBITDA – Group	1,155.5	1,042.3	113.2	10.9%
Percentage weight	2.2%	1.6%	0.6 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 AguaAzul (Peru) is controlled by the Group which owns 44% and provides the water and discharge service in the city of Lima. Control of the company was taken by virtue of the amendment of the Shareholders' agreements and the purchase on 13 January 2020 of additional shares in the company from the outgoing Shareholder Impregilo International Infrastructures N.V., which increased the Group's shareholding from 25.5% to 44.0% (+18.5%);
- Acea Perù is wholly owned by Acea International and was established on 28 June 2018. 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 overall equal to 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);
- Consorcio Acea controlled by Acea Perù (99%) and Acea

Ato 2 (1%), established on 15 December 2020. Consorcio Acea signed a three-year contract for the management of pumping stations for drinking water in Lima.

This Segment closed 2020 with an EBITDA of € 25.3 million, recording an increase of € 8.4 million compared to 31 December 2019. The change is primarily attributable to consolidation of **Consorcio Agua Azul** (+ € 7.8 million) and increased revenue recorded by **Acea Perù** in relation to temporary management of the Lima Nord contract (+ € 0.8 million) and **Consorcio Servicio Sur** for high-margin extra-contractual activities (+ € 0.7 million) partially offset by lower tariff revenues for **Aguas de San Pedro** (- € 0.9 million).

The average workforce at 31 December 2020 stood at 987 employees and was up by 173 compared to 31 December 2019, mainly attributable to **Acea Perù** (+ 183 employees) and to **Consorcio Agua Azul** (+ 32 employees), offset by the reduction recorded by other companies in the area, primarily **Consorcio Servicio Sur** (- 19 employees) and **Aguas de San Pedro** (- 12 employees).

Investments for the year amounted to € 3.1 million, down by € 3.9 million. The reduction is mainly due to lower water investments in **Aguas de San Pedro**.

Net debt at 31 December 2020 was positive, amounting to € 9.0 million, an improvement of € 4.5 million compared to 31 December 2019, mainly due to **Aguas de San Pedro** (+ € 3.9 million) and **Acea Perù** (+ € 0.4 million).

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

On 05 January 2021 Consorcio Acea Lima Norte was established, controlled by Acea Perù (99%) and Acea Ato 2 (1%). Consorcio Acea Lima Norte signed a three-year contract for maintenance of the water and sewerage network in the Nord di Lima zone.

WATER

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

Operating data	U.M.	31/12/2020	31/12/2019	Change	Change %
Water volumes	m ³	711	538	173	32.16%
Electrical Energy consumed	GWh	1,014	663	351	52.94%
Disposed sludge	ton	253	134	119	88.81%
Gas delivered	mc	57,354,910	60,641,789	(3,286,879)	(5.42%)
Gas no. of active users	n.	62,058	62,068	(10)	(0.02%)
Network completed	km	180	325	(146)	(44.77%)
White certificates	n.	7190	7,974	(784)	(9.83%)

Equity and financial results

€ million	31/12/2020	31/12/2019	Change	Change %
Revenues	1,208.9	1,049.2	159.6	15.2%
Costs	594.5	544.3	50.2	9.2%
EBITDA	614.4	505.0	109.4	21.7%
Operating profit/(loss) (EBIT)	309.9	252.2	57.7	22.9%
Average workforce	3,292	3,094	198	6.4%
Capex	476.0	380.1	95.9	25.2%
Net financial debt	1,483.7	1,286.5	197.2	15.3%

EBITDA

€ million	31/12/2020	31/12/2019	Change	Change %
EBITDA – Water Segment	614.4	505.0	109.4	21.7%
EBITDA – Group	1,155.5	1,042.3	113.2	10.9%
Percentage weight	53.2%	48.4%	4.7 p.p.	

The EBITDA for the Segment stood at € 614.4 million at 31 December 2020, an increase of € 109.4 million compared to 31 December 2019 (+ 21.7%).

The increase is largely due to **Acea Ato 2** which recorded an increase of € 53.9 million mainly due to the effects related to the tariff increase determined following the ARERA Resolution no. 580/2019/R/idr – MTI-3, which for 2020 marks the beginning of the third regulatory period (four years 2020-2023) (the increase in revenues is equal to + € 62.0 million) offset in part by the eliminated effects of the commercial quality bonus (- € 35.8 million) compared to the same period of last year. In fact, the third regulatory period (four-year period 2020-2023) is marked by the elimination of the bonus for contractual quality, replaced by application of relevant ARERA provisions issued in previous years, with particular reference to the regulation of contractual and technical quality as well as late

payments. For more information on ARERA provisions on the new tariff method, reference should be made to the section on Water Regulations. There were also increases recorded in **Gori** of €10.0 million due to increased revenue from S.I.I.

The increase was also attributable to the change in the scope of consolidation following the full consolidation of **AdF** from 7 October 2019 (+ € 42.5 million). Finally, the contribution to EBITDA of water companies valued at equity, amounting to € 28.7 million, decreased by € 8.6 million due to the combined effect of decreases recorded by AdF (- € 3.7 million) and S.I.I. (- € 0.4 million) following full consolidation, and by **Publiacqua** (- € 5.7 million) in part offset by the increase recorded by **Nuove Acque** (+ € 1.2 million).

The contribution to EBITDA of the companies valued at Shareholders' equity is detailed below:

€ million	2020	2019	Change	Change %
Publiacqua	10.6	16.3	(5.7)	(34.9%)
Acque Group	12.6	12.3	0.3	2.3%
AdF	0.0	3.7	(3.7)	(100.0%)
Umbra Acque	2.2	2.1	0.1	4.6%
Nuove Acque and Intesa Aretina	1.8	0.7	1.2	170.3%
Geal	0.8	1.2	(0.4)	(31.5%)
Integrated Water Services	0.6	1.0	(0.4)	(38.8%)
Total	28.7	37.2	(8.6)	(28.1%)

The quantification of revenues deriving from the Integrated Water Service is valued in line with the new MTI – 3 method. The item includes the estimate of the tariff adjustments relating to the so-called carry-over items for the period that will be invoiced as from 2021. The following two tables in the section summarise on the one hand the status of the procedures for approving tariff proposals and on the other hand revenues from S.I.I., broken down by company and component, as well as the considerations underlying the determination of revenues for the period.

The operating result was affected by the growth in amortisation and depreciation (+ € 48.8 million), mainly due to the consolidation of **AdF** (+ € 20.8 million) and the remainder to the higher amortisation and depreciation recorded by **Acea Ato 2**, also due to the entry into operation of the new plants (+ € 24.8 million).

The average workforce at 31 December 2020 of 3,292 employees is an increase on the figure for 31 December 2019 of 198 employees, primarily attributable to **Acea Ato 2** (+ 80 employees) that employed a portion of the personnel from **Acea8cento** as described in the Commercial and Trading Segment, **Gori** (+ 63 employees) and consolidation of the company **Integrated Water Services** (+ 31 employees).

Investments in the area amounted to € 476.0 million, an increase of € 95.9 million, attributable to higher investments recorded by

Acea Ato 2 for € 54.3 million, by **Acea Ato 5** for € 3.5 million, by **Gori** € 6.5 million and € 26.2 million to the consolidation of AdF. The investments in the Segment mainly refer to the reclamation and expansion of the water and sewer pipes of the various municipalities, the extraordinary maintenance of the water centres, the work on the purifiers and the transport systems (connectors and feeders).

Net debt for the Segment at 31 December 2020 was € 1,483.7 million and represents a worsening of € 197.2 million partly due to consolidation of S.I.I. (+ € 48.0 million) and for the remainder attributable to **Acea Ato 2** (+ € 118.0 million) connected primarily to investments during the year and operating cash flow dynamics.

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

Lazio – Campania area

Acea Ato 2

The Integrated Water Service in OTA2 Central Lazio – Rome started on 1 January 2003. The management of the OTA Municipalities took place gradually and the Municipalities currently managed are 79 compared to 112 of the entire OTA. The following table shows the overall situation in the territory managed, which has not changed compared to the previous year.

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:	18
Municipalities to be acquired	7

* 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 drinking water to approximately 3,900,000 residents in Rome and Fiumicino and in more than 61 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 2020, Acea Ato 2 manages a total of approximately 6,852 kilometres of sewerage network, 645 sewerage pumping stations – of which 194 in the Roma Capitale area – and a total of 159 waste treatment plants – 32 of which in the Roma Capitale area – for a total quantity of treated water equal to 581 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 2020, the six main treatment plants had treated a volume of water equal to about 510 Mmc with a slight drop caused by the absence of rainfall, compared to what was treated in 2019 (514 Mmc).

H1 2020 was greatly influenced by the Covid-19 emergency, which particularly affected the availability of sites for the recovery/disposal of solid materials and their transport. In particular, shipments to Spanish plants were interrupted following the government lockdown, with a reduction of 9,000 tonnes/year of space available for sludge. This situation has led to the need to resort to a new exception by the Lazio Region for the extension of temporary storage and the request to the Ministry of the Environment to waive the limits on the discharge of the treatment plants managed by Acea Ato 2. At the same time, in compliance with the requirements of the Lazio Region a series of initiatives were launched to reduce the solid matter produced, such as the rental of a mobile dryer at the Ostia treatment plant and the construction of a sand recovery plant at the same treatment plant.

The trend in the production of dehydrated and dried sludge in the last quarter of 2020 shows an increase in the production of solid sludge, against a net decrease in production of liquid sludge, demonstrating normalisation in the context of waste management with particular reference to the availability of plants that deal with this type of material.

With regard to analytical certificates for sludge and waste, in 2020 there was a slight decrease in the number of analyses carried out by Acea Elabori (external certified laboratory) compared to the average for the same period in previous years, also as a result of the lack of parallel special sampling by ARPA due to the Covid-19 emergency. Please note that revenues for 2020 totalled € 655.2 million and that this valuation was carried out in accordance with the criteria of ARERA Resolution 580/2019/R/idr.

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 OTA 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 OTA 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 waste water treatment terminals.

There are 219 sewerage pumping stations managed by the Company and 132 treatment plants, of which 116 are biological plants, 14 are “Imhoff tanks” and 2 are percolators, including also the “in-accessible” and those outside the OTA (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 OTAA 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 OTAA 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 perspec-

tive, 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 reference 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 a ‘local public service without economic importance’”.

OTAA 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 Regional 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 OTAA5, against sentence no. 638/2017 of the Lazio Regional Administrative Court – detached section of Latina, 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 OTAA 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 OTAA 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 OTAA 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 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 OTAA. 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 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 OTAA 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 OTAA 5, granted a postponement to 4 May 2018

At this meeting, in light of the Conciliation Panel established on 11 September 2018 with OTAA 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. At this hearing there was a postponement until 20 December 2019. The proceedings were first postponed to 17 March 2020, then automatically postponed to 11 September 2020 and then to 15 December 2020. The case was further postponed to 12 February 2021, and the results are still awaited.

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 proceedings were postponed to 30 June 2021.

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 5SpA 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 26 November 2019 and currently being examined by the OTAA 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 provisions 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 identified 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 Operator. 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/idr, 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 provisions. 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 OTAA 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 26 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 OTAA 5

With regard to **relations with OTAA 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 OTAA 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 OTAA 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 OTAA 5 and the Company signed report no. 1 in which the parties expressed their mutual willingness to open a Conciliation Board on:

- judgement pending with the Court of Frosinone, docket

number 1598/2012, relative to concession fees from 2006-2011 – the Board proposes recognition of the amount due from the Operator in the amount requested, € 1,750,000;

- quantification of the concession fee relative to the period 2012-2017, and the linked destination of any economies for a total of 12,798,930.00 – the Board proposes, also taking into account the regulatory guidelines provided by ARERA, that these are taken out of the tariff adjustments in favour of the Operator;
- recognition of the receivable due to the Operator (€ 10,700,000.00) and 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. The Board proposed recognition of this receivable, but the case would not have any impact on the Financial Statements, given that the item in question is already recognised;
- compensation of damages suffered by Acea Ato 5 against delayed delivery of services by the Municipalities of Cassino, Atina and Paliano – the Board holds the Operator's claim to be founded but, in consideration of the difficulty in quantifying the damage suffered and with an eye to amicable settlement, proposes that the Operator renounces this claim with regards to the Area Authority;
- compensation of damages for the lack of handover of the ASI and Cosilam plants, assessed in the amount of € 2,855,000.00 – the Board holds that the requirements to dispute a deed which is now final are not met; nonetheless, the Operator will renounce the claim against recognition of the credit for € 10,700,000.00;
- recognition of interest on the delayed payment of concession fees on the part of Acea Ato 5, assessed in the amount of € 650,000.00 – the Board proposes recognition of this claim;
- request for an Operator repayment plan relative to the Area Authority for debt positions relating to the concession fee for 2013/2018 which, as at 30 June 2019, amount to around 10,167,000.00. The Board proposed that this item, already recognised in the Financial Statements, be offset by the recognition of a credit of € 10,700,000.00;
- discounting of the Adjustments 2006/2011, and for 2014, 2015, 2016 and 2017, assessed in the amount of € 1,040,000.00 – the Board proposes recognition of this credit in favour of the Operator;
- non-invoicing of adjustments 2006/2011, due to the adjustment of 2012 volumes, assessed in the amount of € 1,155,000 – the Board proposes recognition of this claim in favour of the Operator.

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 indi-

vidual 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 an investigation 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 Chairperson 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.

With a note ref. no. 53150 On 04 February 2020, Acea Ato 5 informed the OTS of OTAA 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 OTAA 5 and Acea Ato 5 and that, moreover, the Chairperson 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. To date, 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 OTAA 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 OTAA 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 2019 the Company decided to recognise a provision of this amount. In July and August 2020, the Area Authority convened the Area Council representatives, to illustrate the work done by the reconciliation Group, so as to begin activities preparatory for the presentation of the same to the Conference of Mayors. At present no additional meetings have been organised and the aspect relative to Acea Ato 5's willingness to make investments of € 4.5 million over 5 years fully under the responsibility of the Operator itself is still being evaluated.

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 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. This case was combined with criminal proceeding no. 2031/16 r.g.n.r.

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 Antitrust 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, paragraph 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 commercial practices, violations of consumer rights in contracts and 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.

On 26 February 2020, a request for information was received from the Italian Competition Authority pursuant to art. 3, paragraph 2 of the “Regulation on preliminary investigations concern-

ing misleading and comparative advertising, unfair trade practices, violation of consumer rights in contracts, violation of the prohibition of discrimination and unfair terms” regarding the effectiveness of the measures put in place by Acea Ato 5 following sanction no. 27798 of 5 June 2019, adopted at the outcome of the PS9918 preliminary investigation procedure.

In particular, with reference to the July-December 2019 and January-February 2020 periods, the Authority requested specific information about:

- a. the number of claims received, distinguishing and specifying the reason for each individual claim;
- b. number of claims accepted and number of claims rejected;
- c. number of payment reminders and disconnection notices sent to the users;
- d. number of executive procedures begun to collect overdue amounts;
- e. number of water service disconnections carried out, indicating the reasons and the procedures followed.

On 17 March 2020, the Company responded to the aforementioned request, highlighting the improved pro-consumer management of the relationship with users.

In particular, the evidence submitted confirmed that:

- no requirements had been imposed by the Authority with regard to the verification referred to in Sanction Order no. 27798 of 5 June 2019. In fact, the Company had already improved its performance of the activities in question during the audit;
- the Company had for some time already implemented or modified its procedures – in compliance with current sector legislation – in order to best meet the changing needs of consumers, also to take into account the regulatory measures recently adopted by ARERA.

In light of these considerations and taking into account the data available to date, no relevant findings emerged with regard to the requests made by the Authority. At present, there are no updates nor have additional requests been received from the Authority.

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 Chairperson 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 Chairpersons 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 Regional 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. This deadline was extended to 11 May 2020 due to the health emergency. The appeal has been presented and at present we are waiting for the hearing to be scheduled.

During 2019, the Guardia di Finanza 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 Revenue Agency – 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:
 - undue decrease in income of € 10,703,757;
 - positive income components not recorded and not declared for € 829,552;
 - negative income elements unduly deducted for € 1,559,616.

With this report on findings (PVC), the second and third points 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 these fines with the Provincial Tax Commission of Frosinone on 28 February 2020 in compliance with the deadline of 60 days from the date of notification of the aforementioned notices of assessment, jointly and severally with the Parent Company Acea, with regard to the assessments of the IRES tax for 2013. The meeting for discussion originally set for 18 November 2020 was postponed to 19 January 2021. 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 financial 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.

AGCM feedback on purification and charge of sewerage and purification fees

On 13 March 2020, a request was received from the AGCM for information pursuant to art. 3, paragraph 2 of the “Regulation on preliminary investigations concerning misleading and comparative advertising, unfair commercial practices, violation of consumer rights in contracts, violation of the prohibition of discrimination and unfair terms”, with specific reference to the application of the tariff for purification services in the territory of the municipality of Vicalvi and the other municipalities managed by Acea Ato 5.

This request stemmed from the clarification note sent by the Municipality of Vicalvi at the beginning of 2020 and recalled by the same Authority in which it was asked to justify this attribution in view of the fact that only *Imhoff* tanks are used in the municipal territory and there are no purification plants.

Specifically, the Authority asked to know:

- details of the municipalities in which no purification service is offered;
- the number of users residing there who are charged for the purification service;

- any initiatives taken for the activation of new and/or additional treatment plants, specifying the date of their entry into operation.

In this regard, having to deal with the exceptional operational difficulties related to the extraordinary emergency situation created following the spread of Covid-19, which inevitably affected the timing of the collection of the requested information and the preparation of the subsequent response – whose deadline was set at 2 April 2020 – it was considered appropriate to request an extension of the deadline to 30 April 2020.

On 30 April 2020 the Company responded to the request for information received from the Antitrust Authority regarding the application of the tariff for purification services in the territory of the Municipality of Vicalvi and the other municipalities managed by Acea Ato 5, with note no. 0141201/20.

In particular, with regard to users residing in the municipalities not currently served by purification who are charged for the aforementioned service, equal to 387 users (out of approximately 17,028), the Company replied to the Authority that it would promptly return this charge and exempt the aforementioned users from the purification portion of the tariff.

The return has been arranged automatically and regardless of any petition or request by users, and even in the absence of any report about the lack of a purification system available to the users, in accordance with the provisions of the ruling of the Constitutional Court no. 335/2008.

Subsequently, the Company acknowledged the numerous initiatives currently under way to ensure the operation of treatment plants located in the municipalities not yet served, also on the basis of specific commitments made with Optimal Territorial Area Authority no. 5 and included in the Works Programme (WP).

Finally, with specific reference to the position of the Municipality of Vicalvi, the Company has provided the necessary clarification regarding the charge made to users residing in the aforementioned municipality of the tariff relating to the purification service, specifying that this charge is legitimate due to the presence in the municipal territory of Imhoff tanks, delivered to the Company at the time of the transfer of the IWS, which are in fact, both at an operational and regulatory level, purification plants, so much so that the costs of managing them have been recognised and approved by OTAA 5 in the 2016-2019 tariff preparation.

The above demonstrates that, unlike what was stated by the Municipality of Vicalvi, the provision of a charge in the tariff for the costs of managing Imhoff tanks – through the tariff item relating to the purification service applied to users whose discharges flow into such system – is entirely lawful, and as recognised by the Operational Technical Secretariat of OTAA 5 it is consistent not only with the tariff method approved by ARERA with Resolution no. 580/2019/ldr, but also and above all with the principles affirmed by the Constitutional Court with judgement no. 335 of 2008, according to which the tariff, as a contractual consideration, must “express the industrial cost of the water service represented...by the integration of collection, supply, distribution, collection and purification services”. At present, there are no updates nor have additional requests been received from the Authority.

With reference to progress of the procedure for approving the water tariffs for OTAA 5, at present water tariffs for the 2012-2015 period have been approved by ARERA (Resolution 51/2016/R/ldr of 11 February 2016).

In fact, recall that the water tariffs are established by the governing bodies for the area, or by other competent entities identified in Regional Law, and then sent to ARERA for approval. In the case of inaction by governing bodies for the area, the Operator may take the initiative.

Regulatory period 2016-2019

With Resolution 664/2015/R/ldr of 28 December 2015, ARERA approved the Tariff Method for the second regulatory period “MTI-2”, defining the rules for calculating costs included in tariff recognition, as well as identifying the reference macroeconomic parameters and those associated with the division of risk in regulation of the water sector. After publication of MTI-2, the Company continued to provide the Area Authority with information and clarifications useful for preparation of the 2016-2019 tariff. Despite the sending of these documents, the Area Authority did not prepare any tariff proposals for the 2016-2019 period. Therefore, seeing the inaction of the Area Authority, on 30 May 2016 the Company sent to the OTAA 5, via certified email, cc'ing ARERA, the tariff request pursuant to art. 7, para. 7.5 of Resolution 664/2015. With a note ref. no. 19984/P of 13 July 2016, ARERA convened the Area Governing Body and the Operator for a meeting on 19 July 2016. After this meeting, and based on the tariff preparation carried out by the OTAA 5 OTS, the Conference of Mayors was convened for 29 July 2016. This Conference also did not lead to any tariff decision. Responding to the tariff request made by the Operator on 30 May 2016, ARERA sent OTAA 5, on 16 November 2016, a formal warning to take action, within 30 days, to make the tariff decisions for which it was responsible for the second regulatory period 2016-2019, noting that, after this deadline the Operator's request would be understood to have been accepted and would be sent to the Authority for evaluation in the subsequent 90 days. After the warning from ARERA, on 13 December 2016 OTAA 5 approved the tariff proposal.

At present, definitive approval by ARERA is awaited.

Two-year update 2018-2019

With Resolution 918/2017/R/ldr of 27 December 2018, ARERA created regulations for the two-year update to tariffs for the Integrated Water Service.

Implementing this regulatory framework, on 1 August 2018 the Conference of Mayors of OTAA 5 formalised approval of the tariff multiplier for the years 2018 and 2019 in the maximum amount established under the Tariff Method, 8%, through Resolution no. 7, without prejudice to the study done by ARERA for the change in the theta which determines tariff changes exceeding the limit established in MTI-2. Additionally, with Resolution 8 of 1 August 2018, the Conference of Mayors approved, pursuant to art. 3, para. 1, of Resolution ARERA of 28 September 2017, 665/2017/R/ldr, the new tariff structure (TICSI).

As described in detail below, note that on 21 May 2018, with Resolution DSAI/42/2018/IDE of 21 May 2018, ARERA began a sanctioning procedure relative to the Company, which ended with the application of a fine, in relation to a series of findings relative to tariff adjustment for the Integrated Water Service for the years 2012-2017 (hence also regarding tariffs also approved by the Authority itself, 2012-2015).

In any case, at the time of the 2018-2019 tariff update approved by the OTAA 5 Conference of Mayors on 1 August 2018, the appropriate adjustments were made based on that indicated by the Regulatory Authority in the context of the aforementioned sanctioning procedure.

At present, approval by ARERA is awaited.

It should nonetheless be specified that article 15, para. b) of Resolution ARERA 918/2017/R/ldr of 27 December 2017 establishes that Operators are required to apply, after preparation of the two-year update by the Area Governing Bodies, and until approval by the Authority, the tariff update prepared by the Governing Bodies, in compliance with the price limit pursuant to par. 3.2 of Resolution 664/2015/R/ldr.

Additionally, during October 2019, 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.

To that end, below is that clarified by ARERA in its Communication of 5 February 2020, which states: “With reference to the two-year update proposals for the tariff structure for 2018-2019, sent to the Area Governing Bodies pursuant to Resolutions 917/2017/R/ldr and 918/2017/R/ldr, but not yet involved in specific approvals by the Authority, it is clarified that:

- the Authority will complete the investigations intended to ascertain the consistency of the relevant technical and tariff data, in the context of the verifications on the specific regulatory structures proposed for the third regulatory period (2020-2023), in observance of the MTI-3 water tariff method, pursuant to Resolution 580/2019/R/ldr;
- for the two-year period 2018-2019 the tariff determinations adopted by the competent entities 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 framework”.

Regulatory period 2020-2023

With Resolution 580/2019/R/ldr of 27 December 2019, ARERA approved the Tariff Method for the third regulatory period “MTI-3”, defining the rules for calculating costs included in tariff recognition, as well as identifying the reference macroeconomic parameters and those associated with the division of risk in regulation of the water sector. After publication of MTI-3, the Company provided the Area Authority with data, information and clarifications useful for preparation of the 2020-2023 tariff. Despite the sending of these documents, the Area Authority did not prepare the tariff proposals for the 2020-2023 period by the deadline set in the regulations in effect (31 July 2020). Therefore, seeing the inaction of the Area Authority, on 15 December 2020 the Company sent to the OTAA 5 and to ARERA, via certified email, the tariff request pursuant to art. 5, para. 5.5 of Resolution 580/2019.

On 10 March 2021, the OTAA Conference of Mayors approved the proposed tariff for 2020-2023, with Resolution 1/2021.

This is in contrast with the tariff adjustment request, prepared by the Operator pursuant to art. 5, para. 5.5 of Resolution ARERA 580/2019/R/ldr, containing the regulatory framework for the 2020-2023 third regulatory period and showing significant differences for the 2020-2023 period, with reference to **operating costs** and the **tariff multiplier**.

With reference to **operating costs** note that the lack of recognition by OTAA 5 of the operating costs suffered by the Operator, documented in the requests presented during the preparatory work for the tariff structure, definitively formalised by the Operator in the tariff update request sent on 15 December 2020, was not adequately justified and technically represented in the Technical Report issued by OTAA 5 and accompanying its tariff proposal. Hence at present the Operator is not aware of the reasons these costs were excluded from the tariff recognition approved by OTAA 5 on 10 March 2021.

Relative to the **tariff multiplier** note that the Tariff Structure approved by OTAA 5 established a tariff multiplier with the following problems:

- it does not indicate specific invoicing schedules to recover previous adjustments equal to € 101 million;
- the amount of adjustments inserted by OTAA 5 in the Economic Financial Plan is not included in the formula which determines the tariff multiplier for the relevant years (2023-2024);
- the reduction in operating costs which occurred in years for which Acea Ato 5 already suffered the relative charge (costs in

the Financial Statements 2018-2019, basis for tariff determination 2020-2023), leads to a financial loss of the same amount, as it is necessary to apply a tariff change, for the respective years, less than that applied as of 1 January 2020.

For other details, please see the *Report on Operations (Water Sector paragraph)* and the *Notes (Information on Services Under Concession)*. As a result of the approval of the 2020-2023 tariff provisions, the Directors of Acea Ato 5 acknowledged a financial discrepancy significant enough to raise serious doubts about the subsidiary as a going concern.

In this regard and in light of the forthcoming approval of the subsidiary’s draft annual Financial Statements, the Company Directors launched a review of the previously approved 2021 Budget and the related 2020-2024 Plan in order to implement all the appropriate measures to re-establish the financial stability needed to confirm the assumption of the business as a going concern.

Gori

The Company manages the Integrated Water Service for the entire territory of the “Sarnese-Vesuvianoo” District Area (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 5,141 km of water network is currently managed, consisting of 869 km of primary abstraction network and 4,272 km of distribution network, and a 2,625 km drainage system.

Gori currently manages 13 water sources, 116 wells, 206 tanks, 123 water pumping stations, 191 wastewater pumping stations and 11 waste treatment plants.

The Company provides Integrated Water Service on the basis of a thirty-year agreement signed on 30 September 2002 by the Company and the Sarnese-Vesuvianoo 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 CampaniaSpA), 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 OTA 3 and still managed by the Region, hereinafter referred to as “Regional Works”) to the Area Governing Body and, through it, to Gori, and 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-Vesuvianoo 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 OTA 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 re-

gional “wastewater collection and purification” services; 3) the creation of conditions to facilitate Gori’s access to the credit market; (iv) the commitment of the parties to the extent of their remit to restore/maintain the economic-financial equilibrium of the OTA 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.

During 2020, the Covid-19 health emergency led to significant social and economic problems, in the face of which the Italian government and the Campania Regional Council adopted and continue to adopt a series of measures aimed at mitigating the effects. In relation to these critical issues, ARERA adopted a series of measures aimed at strengthening safeguards for users of the IWS, suspending activities regarding collecting receivables and suspension/interruption of the service for users in arrears, and, amongst other measures, offering the option of spreading payments with a series of instalments for a period of at least 12 months. These new safeguards established for ARERA users regarding arrears required updating of procedures and information systems of water-service operators, and resulted in further extension of the times for application of restriction and subsequent suspension of supply according to the regulatory provisions in force adopted by ARERA. ARERA then extended until 31 July 2020 the deadline for definition of the Regulatory Framework pursuant to Resolution 580/2019/R/idr by the Campania Water Authority, thus postponing updating of tariffs in line with the provisions, already applicable from 2020, of the Operational Agreement.

Considering the reduction in ordinary revenue, attributable amongst other factors to closure of numerous manufacturing businesses during 2020 as a result of the health emergency already in progress and postponement of application of the tariff increase planned for 2020, equal to 8%, there was inevitably lower income recorded by operators of water services, including Gori, compared to the pre-Covid-19 situation.

On the basis of these findings, communicated to the Campania Region, and considering the contents of art. 4 of the Operational Agreement, according to which the parties undertake, each within the scope of its own remit, in order to maintain the economic and financial balance required by the Regulatory Framework of OTA 3, approved with Commission Resolution no. 39/2018, to redetermine/redefine payments of sums due from Gori and established by the Agreement and more generally to take any actions necessary or useful to restore/maintain economic and financial balance, also serving to meet the general requirements of bankability, in line with provisions of the Management Agreement, the Framework Amendment was established on 20/11/2020 between the Campania Region and GoriSpA

The Framework Amendment establishes that the instalments set out by the “Agreement according to the Decree of the Campania Regional Council 171/2013” due to expire in the period between December 2020 and December 2021 for a total amount of € 11,250,000 are postponed and extended to 2032, i.e. to the final year of calculation of the relevant plant in force established by said “Agreement according to the Decree of the Campania Regional Council 171/2013” and that the instalments set out in annex B and annex C of the Operational Agreement due to expire in the period between December 2020 and December 2021 for a total amount of € 23,154,675.22 are postponed and extended to 2028.

These effects were included in the tariff update request for the 2020-2023 regulatory period and on the forecasts underlying definition of the Economic and Financial Plan that allowed Resolu-

tion of the critical issues identified in 2020 and maintenance of economic and financial balance.

The regional works, that is the IWS infrastructure within the territory of the Sarnese-Vesuviano District Area and indicated in the Resolution of the Campania Regional Council no. 243 of 24 May 2016, have been transferred to the Campania Water Authority and, through it, to the Operator Gori. Specifically, the Region, the EIC and Gori, in line with and on the basis of the plan for full implementation of the IWS of OTA 3 planned by the 2016-2019 Regulatory Framework of OTA 3, updated with Resolution no. 39 of the Commissioner of 17/07/2018, arrived at an agreement, in the context of the cited Agreement aimed at full implementation of the Integrated Water Service in the Sarnese-Vesuviano District Area in the context of economic and financial equilibrium of management for the entire remainder of its duration, for the updating of the transfer schedule, with assumption by Gori of management of the service and associated assumption, by way of concession and in accordance with the provisions of the current Management Agreement of the OTA 3 IWS, of the Regional Works and the consequent works to improve their efficiency, including the redeployment and efficient re-employment of the relevant personnel engaged in the IWS, in accordance with and adopting the methods indicated by the aforementioned Regulatory Framework, as well as the Resolution of the Regional Council 243/2016 and the relevant Framework Agreement signed between the Region and the Area Authority on 03 August 2016 implementing the said Resolution 243/2016.

On 31 December 2020, the aforementioned schedule was almost completely implemented, with the exception of transfer of the Comprensorio Alto Sarno treatment plant and network of collectors (actually transferred in January 2021) and the Comprensorio Penisola Sorrentina treatment plant, the transfer of which was defined in the context of the Framework Amendment to the Operational Agreement of 08 November 2018, signed on 23/11/2020, which defined transfer to the Campania Water Authority and, through it, to the Operator Gori by January 2021.

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

The Municipalities in question challenged the Resolution of the Extraordinary Commissioner of the Sarnese-Vesuviano Area Authority dated 19/2016 with which the 2016-2019 Regulatory Framework was prepared and the Resolution of the same Extraordinary Commissioner no. 39/2018 with which the aforementioned Regulatory Framework was updated. The scheduling of a public hearing to discuss the merits of the case is therefore still pending.

Updating of appeals submitted by certain Municipalities of the Sarnese-Vesuviano District Area, by certain Consumer Associations and by some users for annulment of Resolution of the Assembly of the Sarnese-Vesuviano Area Authority no. 5 of 27/10/2012 and the Resolutions of the Extraordinary Commissioner of the Sarnese-Vesuviano Area Authority no. 17 of 29/04/2013, no. 27 of 31/03/2014, no. 43 of 30/06/2014, no. 46 of 03/07/2014, no. 14 of 29/06/2015 and no. 15 of 30/06/2015.

The Company charged user accounts the 2014 tariff component, referred to as “Recovery of items prior to 2012”, in accordance with the provisions of the Resolution of the Extraordinary Commissioner of the Sarnese-Vesuviano Area Authority no. 43 of 30 June 2014, as amended by Resolution no. 46 of 03 July 2014 (tariff provision in turn adopted pursuant to article 31 of annex A of AEEGSI Resolution no. 643/2013/R/idr.

Various parties, including Municipalities, associations and user accounts proposed legal action to formally request the annulment, with precautionary suspension, of the Resolutions in question, while in a civil context annulment was requested of the invoices

containing the adjustment amount. Specifically, it is noted that 7 appeals were filed with the Regional Administrative Court of Campania, in Naples and 4 extraordinary appeals with the Head of State. Furthermore, the Federconsumatori Campania association challenged Resolution no. 14 of 29/06/2015 of the Extraordinary Commissioner of the Sarnese-Vesuviano Area Authority, and the Municipality of Angri and 11 other Municipalities of OTA 3 challenged the Resolution of the Commissioner no. 15 of 30/06/2015 with additional grounds.

Section 1 of the Regional Administrative Court of Campania – Naples, on 15/10/2015, issued sentences nos 4846/2015, 4848/2015, 4849/2015 and 4850/2015, accepting the appeals presented by the Federconsumatori Campania association and by the Municipalities of Angri, Naples and Nocera Inferiore, declared annulment of commissioner Resolutions no. 43 of 30/06/2014 and no. 46 of 03/07/2014 regarding the determination and approval of tariff adjustments for the period 2003-2011 and the collection methods. Specifically, the Regional Administrative Court maintained that these Resolutions were adopted in complete absence of validity, given that the Extraordinary Commissioner, from 21/07/2013 (and, therefore, six months after his appointment on 21/01/2013), would have no longer been in office and, therefore, would no longer held powers from this date.

The Regional Administrative Court did not therefore comment on the legitimacy or lack thereof of the tariff adjustments, limiting itself to identifying the lack of power of the Commissioner and consequent annulment of the provisions established after 21/07/2015, on the basis of an interpretation of the regulations which was not shared by the Area Authority and Gori. In any case, with the new Regional Law no. 15 of 02 December 2015, any doubt regarding interpretation was eliminated, considering that art. 21, paragraph 9 clarified, also for the purposes of correct interpretation of the regulations indicated in the Regional Administrative Court judgement – that: *“the powers of the Commissioners appointed for the liquidation of the abolished Area Authorities and for performance of the functions described in Italian Legislative Decree 152/2006, in compliance with the content of article 1, paragraph 137 of Regional Law no. 5 of 6 May 2013 (Provisions for the preparation of the 2013 annual Financial Statements and 2013-2015 statements of the Campania Region – 2013 Regional Financial Law) cease to apply after six months from the date of entry into force of this law”*.

The Company submitted an appeal to the Council of State to obtain amendment of the sentences and in May 2021 a public hearing was scheduled for discussion in this regard.

Updating of the appeal submitted to the Council of State by the Municipalities of Angri (SA), Casalnuovo di Napoli (NA), Roccapiemonte (SA), Roccarainola (NA) and Scisciano (NA), for amendment of the sentence of the Regional Administrative Court of Lombardy, Naples office no. 1619/2018 of 29 June 2018, which rejected appeal for the annulment of the AEEGSI Resolution no. 104/2016/R/idr of 10 March 2016.

It is noted that the Regional Administrative Court of Lombardy, Milan office, with sentence no. 1619 of 29 June 2018, rejected the appeal of the Municipalities of Angri, Pompei, Roccapiemonte, Roccarainola, Casalnuovo di Napoli, Scisciano and Lettere, which requested annulment of ARERA Resolution 104/2016/R/idr, regarding “approval for the purposes of establishing the value of adjustments in the context of the tariff method for the second regulatory period MTI-2, tariff provisions regarding the Sarnese-Vesuviano optimal territorial area, for the period 2012-2015”. Specifically, the Regional Administrative Court clarified that, in the context of inactivity of the Area Authority, issued a warning in this regard from the Authority to adopt the determinations applicable to it, and on the basis of the specific request to take

action, as an alternative, presented by the Company, the Authority legitimately approved the Tariff Plan for the years 2012-2015 “in order to safeguard users”. The Municipalities therefore submitted an appeal to the Council of State for amendment of the aforementioned sentence no. 1619/2018, and is awaiting scheduling of a public hearing for discussions in this regard.

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

Gesesa

The Company operates in OTA 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 120,000 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 57,247, for which 2019 consumption has been estimated at about 7.6 million cubic metres of water.

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

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. For these reasons, the investments also focused on the improvement and adaptation of the sewerage systems and the restructuring of the treatment plants and the preliminary design of those not yet present in the territory.

Please note that in May 2020, following a decision of the Public Prosecutor at the Court of Benevento, 12 purification plants of the company were placed under seizure with the appointment of a judicial administrator to manage them. Criminal proceeding 5548/16 R.G.N.R., which involves various Gesesa executives and employees and is currently in the preliminary investigation stage, involves management of the purification system in the Benevento area and a possible connection with pollution of bodies of water in that same area. Based on that claimed, the accused are alleged to have, in particular, committed fraud in public services, pursuant to article 356 of the Criminal Code) and the crime of environmental pollution, pursuant to article 452-bis of the Criminal code which, in the Public Minister’s opinion, is a direct consequence of the negligent management of the purification plants.

The Public Prosecutor’s Office requested the preventive seizure of 12 purification plants managed by the Company, assigning them to a Judicial Administrator. In the context of its powers, the Judicial Administrator carried out a detailed audit in order to examine the plants and identify solutions and actions to improve the purification results of the same.

The Company indicated its willingness to suffer the costs for the activities indicated in the final report for this audit and, with a provision of 25 January 2021, the examining judge for the Court of Benevento gave the go ahead to execution of these activities, which will be begun shortly by the Judicial Administrator.

Additionally, the Company had a private audit carried out with reference to another 18 purification plants managed and not subject to seizure, so as to identify any actions needed to improve purification results.

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 21 December 2001. In accordance with said agreement, the Operator took over the exclusive Integrated Water Service of OTA 2, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of waste water. 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 Executive Council of the Tuscan Water Authority modified, with the same tariff multipliers, the composition of the 2016 and 2017 tariffs approved by AIT Resolution 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 Executive Council of the Tuscan 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.

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 established 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. The amount for tariff revenues entered in the 2020 Financial Statements represent the GRC value recognised to the operator. Included amongst revenues are adjustments for systemic changes recognised in the aforementioned proposal and not booked in previous Financial Statements: their value totals € 0.7 million.

On 18 December 2020, the Executive Council of the Tuscan Water Authority, with Resolution no. 7, approved the tariff proposal for the years 2020-2023 (according to ARERA Resolution 580/2019/R/idr of 27 December 2019) to be submitted for ARERA approval. As noted, ARERA should fulfil this obligation within 90 days. Nevertheless, the timeframe for this approval depends entirely on ARERA itself. It is held that elements of uncertainty are connected to requests submitted that require approval by ARERA.

Publiacqua

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 OTA 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.

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. 665/2017/R/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 and at the same time approved extension of the Company's concession until 2024. The Company then 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 Works Programme.

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. On 6 February 2020, ARERA sent a communication on the tariff provisions for the Integrated Water Service for the two-year period 2018-2019 confirming the validity of the tariff determinations adopted (and consequently the approval of Publiacqua's 2018-2024 Economic and Financial Plan), for which the suspensive condition could be exceeded after the end of the year.

Finally, we note that the tariffs for the year 2020 were determined in compliance with the provisions of art. 7 of Resolution 580/2019/R/idr approved by ARERA on 27 December 2019 by which the same Authority defined the Tariff Method in force for the period 2020-2023. According to the provisions of the Resolution, from 1 January 2020 and pending the activities necessary to update the tariffs to the new regulatory provisions, Publiacqua is required to apply the tariffs previously approved by the Tuscan Water Authority with Resolution 24/2018.

Finally, it is noted that on 26 June 2020, the AIT approved the tariffs for the third regulatory period (2020-2023) and promptly sent the tariff proposal to ARERA. Substantially, the regulatory Economic and Financial Plan (EFP) highlights a tariff trend, and consequently a Guaranteed Revenue Constraint (GRC), that is constant over time, with application only of annual inflation. Validation of the data by ARERA is still in progress during this phase.

Acquedotto del Fiora

Based on the agreement signed on 28 December 2001, the

operator (AdF) is to supply Integrated Water Services on an exclusive basis in OTA 6, consisting of public services covering the collection, abstraction and distribution of water for civil use, sewerage and waste water treatment. The term of the Management Agreement is 25 years from 1 January 2002 and in 2020 was extended until 2031.

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 GRC 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 Executive Council 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. On 27 November 2020, based on the actual data collected referring to the years 2018 and 2019 and the Investment Plan, the Tuscan Area Governing Body (AIT) approved the tariff revision proposal with the MTI-3 scheme, setting the GRC and the Theta of the years 2020-2023 and also redesigning the entire tariff profile until the end of the IWS concession (Resolution of the Executive Council of the AIT no. 6/2020 of 27 November 2020). This tariff proposal was then sent to the Tuscan AGM by ARERA and approved by ARERA on 2 March 2021. Total revenues of the period, including adjustments to pass-through items, amounted to € 112.1 million and a share of FoNI equal to € 10.9 million.

The evolution of the regulated water framework in Italy, already outlined following 643/2013, had marked a fundamental point in favour of the stability and bankability of Operators with an increasing reassurance of the lending institutions, the Authority having established a formal guarantee of the achievement and maintenance of the current and future financial equilibrium of IWS management. With MTI-3, ARERA has essentially maintained the underlying logic of the previous tariff method and the basic principles to protect the continuity and financial sustainability of water management.

A regulatory system attentive to the calibration of financial flows related to the investments to be made is in fact an indispensable element to allow the Company to pursue its mission, as evidenced by the signing of the Structured Financing of 30 June 2015.

Relative to the structured financing obtained on 30 June 2015, in February 2020, after the conversations begun already in 2019, the Amendment to the Loan Contract was signed, which revised certain conditions continued in the existing contract; in particular:

- a time extension of the debt repayment plan, with the new maturity set for 31/12/2029;
- interest rate: 6-month Euribor plus 1.90%;
- amendment to the hedging strategy, establishing coverage of interest equal to 60% of the loan;
- autonomous first request guarantee for Acea SpA;
- agency fees: € 150,000 per year.

To guarantee coverage of interest rate risk for the period after the existing Interest Rate Swap derivatives contract expires, it was necessary to subscribe an additional four new derivative contracts, in addition to those existing, forward started Interest Rate Swap type, starting on 30/06/2022 and expiring on 31/12/2029, for which the fixed interest rate is set at 0.51%.

These contracts guarantee continuity for the hedging strategy established by the Loan Contract signed on 30/06/2015.

Umbra Acque

On 26 November 2007, Acea was definitively awarded the contract in the context of the tender procedure launched by the Area Authority for OTA I Perugia for selection of the private minority industrial partner of Umbra AcqueSpA (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 OTAs 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 was formally sent to AURI and ARERA. It should also be noted that the determination of the new tariff plan for the regulatory period 2020-2023 (MTI-3), which includes the outcome of the request to extend the duration of the contract from 4 March 2028 to 31 December 2031 and the acquisition of the new structured loan linked to a bankable regulatory EFP could be significantly reflected in the company's operations, and therefore in the pursuit of the Company's institutional objectives.

The tariff applied to users for the GRC relative to 2020 was determined on the basis of the Economic and Financial Plan prepared to accompany the Tariff Method 2 (MTI-2) under Resolution no. 489 2018/R/idr of 27 September 2018 with which ARERA approved the preparation of the 2018-2019 tariff update previously approved by the Assembly of Mayors of the AURI with Resolution no. 9 of 27 July 2018, according to the new criteria established with Resolution 665/17 (TICSI). The Assembly of Mayors of the AURI, with Resolution no. 10 of 30 October 2020, approved the proposed MTI-3 tariff for the four-year period 2020-2023 (Tariff Plan or TP), the relative regulatory Economic and Financial Plan (regulatory EFP) and associated Works Programme (WP), providing approval with the same Resolution for extension of the concession to 31 December 2031.

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 the 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 Opex_{OT} component for € 180,000/year. Regarding the four-year period 2020-2023, on the basis of the rules established by ARERA Resolution no. 580 of 27 December 2019, Geal provided all documentation required for preparation of the new plan in the initial months of 2020, in line with the deadlines set by the AIT.

On the basis of this data and the verifications carried out jointly by the offices of the company and those of the Authority, the tariff provisions for the years 2020-2023 was prepared, and subsequently approved with AIT Resolution no. 4 of 28 September 2020. The dynamics of tariff increases planned for the four-year period 2020-2023 are the same as those approved by ARERA in

2018, even though the new rules of the MIT-3 have imposed new limits on operators. Pending approval of the aforementioned tariff provisions by ARERA, as required by law, the Company has also submitted a change to the Agreement by the Municipality of Lucca, as set out by ARERA Resolution no. 580 of 27 December 2019. This change was adopted with the Resolution of the Municipal Council of 10 December 2020.

Integrated Water Service Terni Scpa

The Company manages the Integrated Water Service in the Municipality of Terni on the basis of the plans adopted by AURI and subsequently approved by ARERA. For 2020, determination of the economic and financial equilibrium of the company is achieved through application of the water tariff method for the third regulatory period, established by ARERA as evolution of the previous methods.

Progress of the procedure for approving the tariffs

With Resolution 580/2019/R/Idr, ARERA approved the tariff method for the third regulatory period 2020-2023 (MTI-3), setting 30 April 2020 as the deadline by which the area governing body or other competent entity should have submitted the relevant regulatory framework containing the tariff provisions for approval by the Authority. The same Resolution also defined the methods and timing of the application of fees to users related to the tariff approval process.

It should be noted that as a result of the Covid-19 emergency situation, which prompted the Authority to defer several deadlines envisaged by the regulation for the regulated sectors, the deadline of 30 April 2020 set in Resolution 580/2020 was postponed first to 30 June 2020 (Resolution 59/2020/R/com) and lastly to 31 July 2020 (Resolution 235/2020/R/idr).

However, pending the tariff update implementing the new MTI-3 tariff method, the tariffs calculated on the basis of the tariff multiplier resulting from the economic and financial plan already approved under the current tariff provisions remain valid for the year 2020 (i.e. the plan relating to the two-year update 2018-2019 approved by ARERA, or, as such approval has not yet taken place, the plan approved by the AGBs or competent entities).

With a specific communication to operators of 5 February 2020, ARERA noted that the checks relating to the proposals for the two-year update of the tariff provisions for the years 2018 and 2019 submitted by AGBs pursuant to Resolutions 917/2017/R/idr and 918/2017/R/idr and not yet specifically approved by the Authority will be completed as part of the checks on the specific regulatory frameworks 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. In the same statement, ARERA also specified that for the two-year period 2018-2019 the tariff determinations adopted by the competent entities remain valid, which will be assessed as part of the quantification of the adjustment components referred to in article 27 of MTI-3 when approving the new regulatory framework.

The following table shows the updated situation of the procedure for approving IWS tariff provisions for Group companies relating to the 2016-2019 regulatory period, the 2018-2019 two-year tariff update, and tariff provisions for 2020-2023.

For more details on the matter, see the paragraph *Service Concession Report*.

Company	Approval status (up to MTI2 "2016-2019")	Two-year update status (2018-2019)	Approval status MTI-3 2020-2023
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, ARERA approved the 2018-2019 tariff update with Resolution 572/2018/R/idr. On 10 December 2018, the Conference of Mayors adopted the provisions of the ARERA Resolution.	On 27 November 2020, the AGB approved the tariff for the 2020-2023 regulatory period with Resolution no. 6/2020. ARERA approval is awaited. The term of ninety days defined by Resolution 580/2019 expires at the end of February 2021.
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. ARERA has not yet given its approval.	On 14 December 2020, the Operator submitted a tariff updated request pursuant to article 5, paragraph 5.5 of ARERA Resolution 580/2019/R/idr MTI-3 of 27 December 2019. On 10 March 2021, the OTAA Conference of Mayors approved the proposed tariff for 2020-2023, with Resolution 1/2021.
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. ARERA has not yet given its approval.	On 18 December 2020, the Operator submitted a tariff updated request pursuant to article 5, paragraph 5.5 of ARERA Resolution 580/2019/R/idr MTI-3 of 27 December 2019. ARERA has not yet issued a warning to the EIC and the EIC has not yet called the Conference of Mayors for tariff approval.
Acque	On 05 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 Executive Council 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.	On 18 December 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 7. The period for ARERA approval ends March 2021.
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. 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.	On 7 December 2018 the AIT approved the 2018-2019 tariffs with the extension of the 3-year concession. ARERA approved the 2020-2023 tariff provisions and the 2018-2019 two-year update with Resolution 59/2021 of 16 February 2021.	On 26 June 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 3. ARERA approved the 2020-2023 tariff provisions with Resolution 59/2021 of 16 February 2021.
AdF	On 05 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 Executive Council 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 by the AIT Executive Council on 1 July 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.	On 26 November 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 6. The period for ARERA approval finishes at the end of 2021.

(follows)

Company	Approval status (up to MTI2 "2016-2019")	Two-year update status (2018-2019)	Approval status MTI-3 2020-2023
Geal	On 22 July 2016, the AIT approved the tariff with recognition of the Opex _{qc} . On 26 October 2017, with Resolution 726/2017/R/idr 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.	On 28 September 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 4. The period for ARERA approval finished at the end of December 2020.
Acea Molise	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 early 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 pre-existing Agreement to the Agreement template, extending its expiry to 31 December 2021, and confirmed the tariff increase (theta) and the Guaranteed Revenue Constraint (GRC) for 2018 and 2019, also revising the 2016-2019 proposal. ARERA has not yet given its approval.	Discussions with the EGAM are in progress for the 2020-2023 tariff provisions.
Gesesa	On 29 March 2017 with Resolution no. 8 of the Extraordinary Commissioner the OTAA1 approved the tariff provisions for the years 2016-2019. Currently approval by the ARERA is still pending.	The Company submitted the documentation relating to the 2018-2019 tariff review to the Area Authority and the preliminary investigation by the technical offices of the competent AGB (EIC – Campania Water Authority) was completed at the end of February 2020. The final approval of the EIC Executive Committee has not yet been given.	On 29 December 2020, the Operator submitted a tariff updated request pursuant to article 5, paragraph 5.5 of ARERA Resolution 580/2019/R/idr MTI-3 of 27 December 2019. ARERA has not yet issued a warning to the AGB and the AGB has not yet called the Conference of Mayors for tariff approval.
Nuove Acque	On 22 June 2018, the AIT Executive Council approved the rates.	On 16 October 2018 with Resolution 520 ARERA approved the 2018-2019 tariff update proposed by the AIT.	On 27 November 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 5. The period for ARERA approval finishes at the end of 2021.
Umbra Acque	On 30 June 2016, the AGB approved the tariff with recognition of the Opex _{qc} . The ARERA then approved them in Resolution 764/2016/R/idr dated 15 December 2016.	In its session of 27 July 2018, the AURI Assembly approved the 2018-2019 tariff update. The ARERA approved the 2018-2019 tariffs with Resolution no. 489 of 27 September 2018.	AURI approved the 2020-2023 tariff provisions with Resolution no. 10 of 30 October 2020. ARERA approved the same with Resolution 36/2021 of 02 February 2021.
S.I.I. Terni S.c.a.p.a.	On 29 April 2016, with Resolution no. 20, AURI approved the tariff multiplier for the 2016-2019 four-year period and with determination no. 57 it approved the adjustment for previous items. ARERA approved the 2016-2019 tariff provisions with Resolution 290/2016 of 31 May 2016.	With Resolution of the Executive Council of AURI no. 64 of 28/12/2018, approval was given to the 2018-2019 two-year update. With Resolution 464/2018 of 20 September 2018, ARERA approved the 2018-2019 two-year update.	AURI approved the 2020-2023 tariff provisions with Resolution of the Assembly of Mayors no. 12 of 30 October 2020. ARERA provided approval with Resolution 553/2020 of 15 December 2020.

REVENUES FROM THE INTEGRATED WATER SERVICE

The table below indicates for each Company in the Water Segment the amount of revenue in 2020 valued on the basis of the new

MTI-3 Tariff Method, since discussions with the respective AGBs are ongoing. The data also include the adjustments of passing items and the Fo.NI component.

Company	Revenue from the IWS (pro quota values in € million)	Fo.NI. (pro quota values in € million)
Acea Ato 2	655.2	FNI = 42.5 AMM _{FoNI} = 11.0
Acea Ato 5	80.7	FNI = 3.7 AMM _{FoNI} = 4.2
Gori	199	AMM _{FoNI} = 3.2
Acque	73.8	AMM _{FoNI} = 4.3
Publiacqua	99.1	AMM _{FoNI} = 12.1
AdF	112.1	AMM _{FoNI} = 10.9
Gesesa	13.4	AMM _{FoNI} = 0.1
Geal	8.3	AMM _{FoNI} = 0.8
Acea Molise	5.3	-
S.I.I.	16.1	FNI = 0.2 AMM _{FoNI} = 1.8
Umbra Acque	32.6	-

ENERGY INFRASTRUCTURE

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

Operating data	U.M.	31/12/2020	31/12/2019	Change	Change %
Energy produced	GWhe	524	572	(48)	(8.5%)
Thermal Energy produced	GWht	41	52	(11)	(21.4%)
Electricity distributed	GWh	9,096	9,849	(753)	(7.6%)
No. of customers	N/1000	1,644	1,641	2	0.2%
Km of network	km	30,785	30,627	158	0.5%

Equity and financial results

€ million	31/12/2020	31/12/2019	Change	Change %
Revenues	696.7	682.5	14.2	2.1%
Costs	283.8	290.6	(6.8)	(2.3%)
EBITDA	412.9	392.0	21.0	5.4%
Operating profit/(loss) (EBIT)	227.2	237.7	(10.5)	(4.4%)
Average workforce	1,353	1,354	(1)	(0.1%)
Capex	325.1	287.8	37.4	13.0%
Net financial debt	1,566.7	1,320.5	246.2	18.6%

EBITDA

€ million	31/12/2020	31/12/2019	Change	Change %
EBITDA – Energy Infrastructure Segment Adjusted	412.9	392.0	21.0	5.4%
EBITDA – Group	1,155.5	1,042.3	113.2	10.9%
Percentage weight	35.7%	37.6%	(1.9 p.p.)	

The EBITDA at 31 December 2020 was € 412.9 million, an increase of € 21.0 million compared to 31 December 2019. The change can be attributed to the company **areti** (+ € 26.5 million) and is primarily a result of: 1) equalisation of distribution revenues due to the different value of tariff parameters; 2) the change in amounts and different consumption profile in the tiers and equalisation for previous years; 3) *regulatory accounting* (+ € 6.0 million) for remuneration of investments net of amortisation charges (+ € 8.2 million) and the portion of revenues linked to 1G meter swapping (+ € 1.2 million); 4) positive energy balancing as per ARERA Resolution 162/20 (+ € 11.7 million) and 5) also as a result of the effects connected to the reduction in network losses (+ € 7.6 million).

As regards the energy balance, at 31 December 2020 **areti** distributed 9,096 GWh to end customers, recording a 7.6% decrease compared to 2019.

The EBITDA for **Public Lighting** is negative by € 2.0 million, a decrease of approximately € 3.9 million compared to 31 December 2019, due to faults and lacking authorisations for new projects.

Acea Produzione contributed a total of € 32.5 million to EBITDA, down from 31 December 2019 by € 6.2 million, mainly as a result of lower quantities and the price effect.

Finally, EBITDA for the photovoltaic segment was € 12.0 million, up € 8.5 million, primarily due to the effect of the change in scope.

The average workforce was in line with the previous year. Note that the new photovoltaic companies do not have employees.

The operating result was mainly affected by the increased amortisation, depreciation and write-downs for the period, in line with the increase in investments. In addition, the effect of the acceleration of depreciation (started at year-end 2019) of first-generation electric meters according to the swap plan for the installation of second-generation meters affected the increase for the period.

Investments amounted to € 325.1 million, with those of **areti** (€ 282.6 million) pertaining to the renovation and expansion of the HV, MV and LV networks, works on primary and secondary cabins and on meters, while intangible investments refer to projects for the re-engineering of information and commercial systems. Starting from the previous year the so-called “Resilience Plan” was implemented, which consists of works on substations and on the MV and LV grids and projects aimed at limiting the probability of disconnection resulting from the grid’s main accident risk factors. Investments made by **Acea Produzione** amount to € 14.8 million

mainly for the extraordinary maintenance of the Orte, Sant’Angelo and Salisano hydroelectric plants and the Tor di Valle and Montemartini thermoelectric plants.

Also worth noting are the investments made by **Acea Solar** for the activities preparatory to the construction of photovoltaic plants amounting to € 17.6 million.

Net financial debt stood at € 1,566.7 million as at 31 December 2020, showing an increase of € 246.2 million compared to 31 December 2019, with € 12.7 million attributable to the change in scope and € 200.7 million to **areti** as a result of the increasing volume of investments and the dynamics of operating cash flow.

SIGNIFICANT EVENTS FOR THE 2020 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 2020 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.

With Circular no. 2/2020/ELT of 30 January 2020, CSEA prepared a method for adding the applications already submitted in order to 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 18 February 2020, a formal request to participate in the mechanism for reimbursing the default interest billed was formally submitted and the amount requested was received equal to € 2.9 million on 30 March 2020.

On 27 December 2019 Resolution 568/2019/R/eel was also issued, which provides for the reimbursement of amounts due not otherwise recoverable relative to network services equivalent to the model for the recognition of uncollected general system charges. This mechanism was confirmed with Resolution 461/2020/R/eel published on 19/11/2020, which better defined the methods for access to the reimbursement request. This Resolution included recognition of tariff fees for electricity metering, distribution and transmission services, the UC3 and UC6 tariff components and certain fees for specific services, regarding invoices expired by at least 12 months, net of a 10% deductible.

The Authority set date of 30 June 2021 as the limit for presentation of applications for admission to the mechanism, nevertheless offering DSOs the option, to request a 50% advance of the reimbursement amount due with requests to be sent by 07 December 2020 and payment by 31 December 2020. Areti SpA therefore decided to take advantage of this option, sending a request for participation on 04 December 2020. The total amount for network services for Gala for network tariffs uncollected is approximately € 11.0 million, while the amount paid by CSEA with value date 30 December 2020 as payment of balance was € 5.4 million.

Currently, also taking into account the changes in the regulatory framework deriving from the approval of the mechanism for reimbursing general expenses accrued over time, the reduction in the value of the areti receivable from Gala was prudentially determined.

It should also be noted that with Resolution no. 583 of 20 November 2018, the ARERA rejected the complaint presented by Gala Power S.r.l., 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 Regional Administrative Court - Milan, Section I, judgement no. 1936 published on 2 September 2019 and not served. This judgement was appealed before the Council of State on 29/11/2019.

It should also be noted that with Resolution no. 181 of 14 May 2019 ARERA rejected the complaint submitted by EEMS ItaliaSpA, 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. Following this rejection, EEMS submitted an appeal to the Lombardy Regional Administrative Court on 25 July 2019. 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 ItaliaSpA filed a new complaint with ARERA that was again rejected on 04 August 2020 (Resolution no. 304 of 04 August 2020). This order was also challenged by EEMS before the Lombardy Regional Administrative Court with appeal on additional grounds.

It should be noted that with sentence no. 270 of 6 February 2019 the Lombardy Regional Administrative Court fully rejected the appeal filed by GalaSpA against ARERA Resolution 109/2019/R/eel of 6 March 2017 concerning guarantees for the collection of general electricity system costs. A hearing is awaited before the State Council and areti SpA has established itself as in opposition.

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, in April 2019 areti had 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 in September 2019 with the publication of the award.

The supplier selected for provision of the 2G Smart Metering system was Enel Global Infrastructure & Networks.

Following conclusion of the tender procedure, on 14 September 2019 the Request for Authorisation to Recognise Investments (RARI) was submitted to ARERA, which was subject to further refinement from January 2020, until submission of a new version on 08 April 2020. On 30 April 2020, areti received communication from ARERA of the results of the investigative activities which declared that the request could be approved, but in relation to development of the health emergency in progress and actions to combat the spread of the Covid-19 epidemic, it was requested that areti update the plan by 30 June 2020, with the option to request an extension of this date. Areti submitted a request to postpone presentation of the updated plan until 15 July 2020. Following presentation of the updated plan on 14 July 2020, with Resolution no. 293/2020 of 28 July 2020 ARERA approved areti's PMS2, as updated on 14 July 2020, and set the date for initiation of areti's PMS2 as 1 January 2021, admitting the investments regarding the 2G smart-metering system of areti to the scheme for specific recognition of capital costs, starting from the same date.

Considering the difficulties linked to Coronavirus and in line with the restrictions and operational limits to contain spread of the virus, installation of concentrators began in July 2020 and the first 2G meters (pilots) in September 2020, followed by launch, with operational continuity, of the mass replacement of meters in the month of October 2020. On 31 December 2020, the number of installations performed was approximately 3,000 concentrators and 59,000 meters, exceeding the targets set in the RARI.

Following launch of the initial installations in the field of concentrators (July 2020) and 2G meters (September 2020) for which further details will be provided later in the document, monitoring initiatives are underway involving various company divisions, looking at processes/systems impacted by the 2G metering process already in progress:

- installation and configuration of 2G meters in the field;
- acquisition of records and trends for management centre;
- validation and publication of records and trends.

The development of the application map continues unabated, and all the latest features planned for wave 3 were released into production on 7 August.

Areti's single EData Lake

Q4 2020 saw the consolidation of the areti project initiative launched in 2018 in partnership with SAS Institute with the aim of making data available for the distribution business. The calculation infrastructure operates in the Google Cloud environment. Activities run from the definition of a data model to the process of releasing it to an analysis environment, including infrastructure management. The current sources for the procurement of data are: SAP HGP, the extranet server, third-party FTP servers, specific Oracle databases.

As for data integration, to date the following are available:

- 1G remote management system, both for LANDIS and GME meters
- Company GIS mapping system
- Integrated Low Voltage Network Survey in all tabular areas
- SAP (IS-U and MDM)
- TESS system (commercial quality)
- Radar/Meteo weather data recorded and forecasts
- SAP PM
- SAP MM
- SAP IS-U PDFM
- Remote management system

Further data integration is ongoing according to the priorities dictated by the business, with reference to the 2G Management Centre.

Network diagnostics and monitoring project

The project is divided into three main lines of action:

- Primary station diagnostics
- Substation diagnostics
- Overhead line diagnostics

1. Primary station diagnostics with UGV Drones: the project involves the development of an UGV (Unmanned Ground Vehicle) prototype for autonomous or remotely piloted inspection of primary stations. The Autonomus UGV drone has sensors for detecting environmental parameters (temperature sensors, partial discharges, cameras) and sensors for moving autonomously in the environment (lidar, GPS and cameras). It executes inspection plans independently and can be remotely controlled for targeted security checks and operations. The system may also transmit inspection information to an operator located at a location other than the place of operation. During 2020 activities continued for optimisation of the Autonomus prototype, developed in 2019 for Primary Station monitoring. Specifically, for the Autonomus project, work to optimise the prototype's autonomous driving, pointing and monitoring functions was completed. The development of a parking and charging station was completed, which will make the drone completely autonomous for future operations, and the construction of a control station for the management of the drone from the central system was started. As part of this project, a system for transmitting the ultrasonic signal of Partial Discharges was also developed and patented. The system is used when the partial discharge sensor and the monitoring instrument cannot be connected by cable. For example, if applied on UAV drones or on wheeled or tracked UGV robots.
2. Substation diagnostics (CS-Plus): the project involves testing an integrated IOT solution for remote monitoring, diagnostics and management services: e.g., environmental parameters, digital access management, etc. During 2019, scouting was conducted for implementation of POC, concluded in 2020 for both the peripheral sensors part and the central management part of data collection through the IOT platform. In 2020 testing was conducted with various suppliers that led to consolidation of the solution and definition of specifications for the peripheral architecture side. A solution is also undergoing testing for smart access control.
3. Overhead line diagnostics: the project involves the combination of periodic analyses of satellite images using artificial intelligence algorithms (developed to detect man-made and/or vegetation interference) and targeted inspections with drones to enable a continuous monitoring of overhead lines. During 2020, the platform for management of the process was developed and went live and operation of the process itself was launched. The process was found to be highly innovative both by the Politecnico di Milano university Drone observatory and Space Economy observatory.

Primary station automation project

The objective of the project is to define a new architecture for the Command and Control Protection System of the Primary Station (CP) oriented towards the reduction/simplification of low voltage wiring, the use of standard protocols developed for communication between the equipment in the field and the Command and Control Protection System, as well as towards the Remote Control System. It also aims to define and implement concise remote control and automation commands, as well as the provision of remote access to CP data for maintenance and analysis. The Covid-19 emergency heavily impacted planned activities. Nevertheless, during 2020, courses were held on the new remote-control peripheral apparatus in the Primary Station. At the Collantina site a laborato-

ry was set up to verify communication between the peripheral apparatus and the new Enel unified digital protection devices. Tests did not give satisfactory results and evaluation is underway of alternative methods to achieve the indicated functions.

Development of areti telecommunications network

The TLC project involves the creation during 2020-2021 of a high-speed and high-reliability fibre-optic network that will link all primary stations. These will represent the main backbone of the network from which all smart-grid services will be launched. 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 substations and, where possible, the metering points and other types of sensors in order to convey to the central systems all the information acquired through sensors and field equipment. This network will also allow implementation of advanced automation for most substations, in order to significantly improve the quality of the electricity service.

Over a three-year period, primary stations and about a thousand substations will be connected via fibre optics (owned or IRU). This objective will be made possible thanks to the synergy between the optimisation of the electrical grid and the laying of fibre optics, which will substantially reduce the impact on the territory by reducing the inconvenience for the public.

Public Lighting

As at 31 December 2020 extraordinary maintenance and modernisation and safety activities agreed to with Roma Capitale continued regularly, thus creating new lighting points as part of the lighting re-engineering and development projects. Regarding the Public Lighting service, following the opinion given by the AGCM (Antitrust Authority) in Bulletin no. 49 of 14 December 2020, Roma Capitale began checking the conditions of congruity and economic convenience of the performance terms pursuant to the service contract between the Administration and Acea SpA (and through it areti) compared with the terms pursuant to the CONSIP – Luce 3 Convention and, in addition, on the basis of the positions expressed by the AGCM in the said opinion, expressed queries over the legitimacy of the award to Acea SpA. The position taken by Roma Capitale therefore identifies possible critical issues in relation both to continuation of the service on behalf Acea SpA and recovery of amounts invoiced and not paid by Roma Capitale at 31 December 2020 for provision of the Public Lighting service.

Production of electricity

The production system of Acea Produzione currently consists of a series of generation plants with total installed capacity of 225.2 MW, composed of five hydroelectric plants (three located in Lazio, one in Umbria and one in Abruzzo), fifty-two photovoltaic plants (with installed capacity of 8.6 MWp), two two “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 additional 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 Mezzocammio in the Municipality of Rome.

In 2020, the Company generated a volume of 468.6 GWh through the directly owned power plants. During the period, the

Company's production was subdivided into hydroelectric plant production of 368.7 GWh, production from mini-hydro plants of 1.7 GWh, thermoelectric production of 87.1 GWh and photovoltaic production of 11.1 GWh. The Company's production mix is mainly from renewable sources with "green" production representing approximately 90% of the total. In addition, about 60% of total production is incentivised following investments in hydroelectric power plants or participation in the "feed-in tariff" scheme 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 Torino Sud and Mostacciano districts (located in the south of Rome) for a total of 66.29 GWh, for a total of 3,525 utilities served (259 condominiums and 3,266 real estate units).

Co-generation

The operational management of Ecogena focuses mainly on three areas: 1) consulting in the Esco sector and provision of services related to obligations to increase the energy efficiency of third parties (inside or outside of the Acea Group); 2) the supply of energy services 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 4.0 MW of installed capacity in Umbria and Lazio. The production of thermal and refrigeration energy is decreasing compared to previous years due to a milder winter season than last year and the decrease in the absorption of management customers (especially for the Europarco contract) following the Covid-19 emergency. As at 31 December 2020, Company achieved a production volume of around 10.0 GWh (electricity), 20.9 GWh (thermal) and 9.9 GWh of refrigeration.

With regard to Europarco's trigeneration plant, the expansion of the plant has been completed, doubling the cooling capacity installed in the plant with a relative increase in electricity. A third boiler has also been added. The entire project was carried out by reusing and exploiting the plants in the Cinecittà World facility, which is being divested. In December the tender procedure was completed for selection of the supplier that will add a second 400 kW cogenerator on the site.

In April, the new configuration of the Porta di Roma plant was put into operation, including a new 3.3 MWt boiler as part of a substantial modification authorised in 2012. The plant's management system was also modernised,

In September, work was completed on the addition of the third 240 kW boiler at the Saxa Rubra plant. At the same time, work was

completed on the renovation and upgrading of the plant's remote-control systems.

On behalf of Acea Innovation, Ecogena performed activities regarding services for design and permissions of the first five lots of the Acea Group mobility plan. It is noted that following approval of the commercial offer and preparation of the contract, Ecogena delivered the plans for charging infrastructure to the competent Department of the Municipality of Rome on 07 August 2020.

Following this submission and meetings held at the Mobility Department of the Municipality of Rome, it was necessary to proceed with a phase of redefinition of the lots submitted and re-design of certain elements of the plans. Following these amendments, with the determination of 11 November 2020, the Department approved 115 charging stations (87 new systems) and in a second session of the Services Conference (SC) it approved a further 19 systems.

The SC was followed by preparation of requests for excavations licences for the 87 systems approved in the first phase, which will be followed by requests for licences for the other 19 systems in the initial months of 2021.

Tender procedures were also completed for procurement of the materials (by AI) and services (by Ecogena), planning the works which, according to plans, currently without requirements expressed by the municipalities during the licence-approval phase, shall begin in the first ten days of March 2021.

New photovoltaic acquisitions

It should be noted that during 2020, in line with the Business Plan, the Acea Group continued to acquire companies in the photovoltaic market. As at 31 December 2020 18 companies were acquired for a total installed capacity of approximately 33.6 MW. It should also be noted that during the first half of the year 49% of Energia SpA's capital was acquired, which has a total installed capacity of 7.7 MW. Finally, please note that in July 49% of Belaria S.r.l. was acquired, with installed capacity of 3.0 MW.

Acea also completed the acquisition of Fergas Solar SpA, owner of a single authorisation for the construction of a 20 MW solar power plant in Basilicata, and has obtained authorisation for the construction of a 5 MW power plant on its own industrial land in Lazio and for a 15 MW portfolio in Lazio. In the development of greenfield photovoltaics, Acea is also carrying out a balanced mix of projects, with particular attention to areas of an industrial nature, and has a total of over 400 MW in the pipeline.

Merger of photovoltaic companies

It should be noted that as part of the corporate reorganisations of the Energy Infrastructure Segment, the merger of some photovoltaic companies was completed in July 2020, with accounting and tax effects dating back to 1 January 2020.

ENGINEERING AND SERVICES

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

Operating data	U.M.	31/12/2020	31/12/2019	Change	Change %
Total number of analyses	n.	1,142,720	1,159,931	(17,211)	(1.5%)
Total number of samples	n.	36,266	36,367	(101)	(0.3%)
Worksite inspections	n.	14,904	12,481	2,423	19.4%
Safety coordination	n.	286	225	61	27.1%

Equity and financial results		31/12/2020	31/12/2019	Change	Change %
€ million					
Revenues		88.9	79.0	9.9	12.6%
Costs		74.2	66.0	8.2	12.4%
EBITDA		14.7	13.0	1.7	13.5%
Operating profit/(loss) (EBIT)		10.3	10.5	(0.3)	(2.4%)
Average workforce		373	281	92	32.9%
Capex		6.6	1.8	4.8	n.s.
Net financial debt		31.1	6.7	24.4	n.s.

EBITDA		31/12/2020	31/12/2019	Change	Change %
€ million					
EBITDA – Engineering and Services Segment		14.7	13.0	1.7	13.5%
EBITDA – Group		1,155.5	1,042.3	113.2	10.9%
Percentage weight		1.3%	1.2%	0.0 p.p.	

This Segment closed 2020 with an EBITDA of € 14.7 million, for an increase of € 1.7 million (+ 13.5%) compared to the previous year. This change results from opposing effects deriving on the one hand from **Acea Elabiori**, which recorded a reduction of € 3.9 million due to the internalisation of leak searches in operating companies, as well as other effects related to the restructuring of TLC activities and the consolidation of SIMAM (+ € 5.2 million), acquired during the month of May. The Segment also includes **Ingegnerie Toscana**, an engineering company that provides technical support services in the water-environmental sector, and **TWS**, a company that operates mainly in the construction and renovation of works instrumental to the operation of the Integrated Water Service, and in particular of water treatment plants – drinking water and wastewater – as well as design and engineering services as they relate to plant construction. These companies recorded EBITDA of € 2.4 million and € 1.7 million, respectively.

The average workforce at 31 December 2020 stood at 373 and was up compared to 31 December 2019 (281 employees). This increase is attributable to inclusion within the Group's scope of **SIMAM** (+ 77 employees) and the increase recorded by **Acea Elabiori** (+15 employees).

Investments amounted to € 6.6 million, mainly related to industrial equipment purchased by **Acea Elabiori** (€ 4.2 million). The change in the scope related to SIMAM contributed € 2.4 million.

Net financial debt at 31 December 2020 was equal to € 31.1 million, down € 24.4 million compared to 31 December 2019. This change

was due to **Acea Elabiori** for € 29.2 million as a result of the increase in requirements generated by changes in working capital, partly offset by TWS for € 6.5 million due to revenues for work carried out with Publiacqua and Umbriadue. Consolidation of **SIMAM** contributes to worsening in net financial debt for € 1.7 million.

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

07 May 2020 saw finalisation of the agreement for the acquisition of 70% of the capital of SIMAM SpA (Servizi Industriali Manageriali Ambientali), a leading company in the design, construction and management of mobile water and waste treatment plants, in environmental works and reclamation, with hi-tech integrated solutions. The acquisition is an evolution of the Segment to ensure efficiency and flexibility of support for the operating companies, providing value to the Group and strengthening internal know-how, with the standardisation of production solutions and the application of new technologies in the field of Design and Project Management. Synergies were immediately put in place with the launch of development sites and integration projects.

The economic value of the transaction, in terms of enterprise value for 100% of the company, is equal to € 30 million. The agreement envisages the possibility of acquiring additional shares of up to 100% of the company from 2023. The expected annual contribution to EBITDA is approximately € 7 million. Finally, it should be noted that on 24 July 2020 the price adjustment amounted to € 1.3 million.

CORPORATE

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

Equity and financial results

€ million	31/12/2020	31/12/2019	Change	Change %
Revenues	131.1	142.6	(11.4)	(8.0%)
Costs	165.7	148.1	17.6	11.9%
EBITDA	(34.6)	(5.6)	(29.0)	n.s.
Operating profit/(loss) (EBIT)	(55.7)	(24.3)	(31.4)	129.22%
Average workforce	700	668	32	4.7%
Capex	28.5	21.2	7.3	34.5%
Net financial debt	283.2	250.4	32.8	13.1%

EBITDA

€ million	31/12/2020	31/12/2019	Change	Change %
EBITDA – Corporate Segment	(34.6)	(5.6)	(29.0)	n.s.
EBITDA – Group	1,155.5	1,042.3	113.2	10.9%
Percentage weight	(3.0)%	(0.5)%	2.5 p.p.	

Corporate closed 2020 with a negative EBITDA of € 34.6 million, down by € 29.0 million compared to 31 December 2019. The change can be attributed to the combined effect of multiple phenomena, including booking in 2019 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 Italian Antitrust Authority, the increase in operating costs due in part to the Covid-19 emergency, the increase in personnel costs (larger workforce) and the launch of various projects, offset only partially by higher re-invoicing to the Group companies.

The average workforce at 31 December 2020 stood at 700 employees and was slightly up compared to the previous year (668 employees).

Investments amounted to € 28.5 million and increased by € 7.3

million, compared to 31 December 2019. Investments mainly refer to IT developments and hardware (+ € 7.1 million) and investments in the company offices (+ € 0.2 million).

Net debt at 31 December 2020 amounted to € 283.2 million, an increase of € 32.8 million compared to the end of 2019. This change derives from the Group and Acea needs generated by investments and operating cash flow dynamics. It is also noted that acquisitions during the year played a determining role. Regarding the stake in Alto Sangro Distribuzione Gas, it is noted that there was a decline of € 19.7 million.

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

No significant events are reported during the period observed.

SIGNIFICANT EVENTS DURING THE PERIOD AND AFTERWARDS

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 Euromarket. 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.

Acea SpA growth in the field of waste management and treatment

On 22 April Acea finalised an agreement for the acquisition of 60% of the capital of the companies Ferrocarrile S.r.l. and Cavallari S.r.l. (which holds 100% of Multigreen S.r.l.), engaged in the storage, treatment and sorting of waste.

The companies, which own a total of four plants with a total authorised capacity of over 145 thousand tonnes per year, operate in the provinces of Terni and Ancona, carrying out sorting and recovery of paper, iron, timber, plastics and metals. They are also active in the management of the separated collection of production and packaging waste as well as in the disposal of waste, mainly on behalf of Corepla ("National Consortium for the Collection, Recycling and Recovery of Plastic Packaging"). The economic value of the transaction, in terms of enterprise value for 100% of the two companies, is about € 25 million. The companies will be 100% consolidated by Acea, with an expected annual contribution to EBITDA of approximately € 4.5 million.

For Acea, this represents an important step forward in the path of infrastructure growth in the field of waste treatment and further investment in the circular economy, in line with the provisions of the 2019-2022 Business Plan and sustainability objectives.

Acea SpA growth in the sector of the design and construction of plants for the environment and water treatment

On 7 May Acea finalised an agreement for the acquisition of 70% of the capital of SIMAM SpA (Servizi Industriali Manageriali Ambientali), a leading company in the design, construction and management of water and waste treatment plants, in environmental works and reclamation, with integrated solutions featuring high technological content. The economic value of the transaction, in terms of enterprise value for 100% of the company, is equal to € 30 million. The agreement envisages the possibility of acquiring additional shares of up to 100% of the company from 2023.

The company will be 100% consolidated by Acea, with an expected annual contribution to EBITDA of approximately € 7 million.

With the acquisition of SIMAM, Acea vertically integrates its areas of expertise, strengthening its capacity in the construction of infrastructure, ensuring efficiency and flexibility in the operational management of industrial activities, in particular in the circular economy.

Acea SpA Fitch Ratings confirms Acea's "BBB+" rating and "stable" outlook

On 12 May Fitch Ratings confirmed its Long-Term Issuer Default Rating (IDR) for Acea of "BBB+" with "Stable" outlook and the Short-Term IDR of "F2", despite the recent "downgrading of the Italian sovereign rating". The Long-Term Senior Unsecured Rating of "BBB+" was also confirmed.

The opinion reflects Acea's strategic focus on regulated activities, the consolidation of positive operating performance and the good level of liquidity available.

Acea SpA the Shareholders' Meeting of Acea approves the Financial Statements as at 31 December 2019 and approves the payment of a dividend of € 0.78 per share

On 29 May 2019 the Acea SpA Shareholders' Meeting approved the Financial statements and presented the Consolidated Financial Statements at 31 December 2019.

The Shareholders' Meeting appointed the new Board of Directors defining the relevant fees. The Board of Directors will remain in office for three financial years until the approval of the Financial Statements for 2022.

The Board appointed Giuseppe Gola as Managing Director of the Company.

Acea SpA standard Ethics raised Acea's Outlook from "Stable" to "Positive". The current rating is "EE-". The Company is part of the SE Multi-Utilities Index

On 27 July, Standard Ethics raised Acea's Outlook from "Stable" to "Positive" thanks to the development of sustainability strategies that are consistent and aligned with international guidelines. The scope of ESG (Environmental, Social and Governance) actions adequately covers industrial, technological, social and territorial aspects. More recently, the implementation process has also involved the sustainability governance system, control tools and risk management. Moreover, significant efforts appear to have been made with respect to gender equality and the promotion of diversity, starting with the qualitative and quantitative composition of the top-level organs. Reporting appears adequate and aligned with the most advanced standards.

Acea SpA completion of the acquisition of 51% of the share capital of the company Alto Sangro Distribuzione Gas

On 31 August, Acea completed acquisition of 51% of the capital of the company Alto Sangro Distribuzione Gas S.r.l., which operates in the distribution of methane gas, and is present in 24 municipalities of the province of L'Aquila belonging mainly to Atem Aquila 3, and owns almost all of the gas distribution infrastructure, consisting of 537 km of network and about 34 thousand grid points.

Acea SpA initiation of the plan for replacement of electricity meters with new second-generation devices

In October, the plan was launched for replacement in the Capital of

electricity meters with second-generation smart meters. In the city of Rome, more than 2 million meters were installed with a total investment of approximately € 300 million. ARERA approved the Commissioning Plan of the 2G Smart Metering System presented by areti, the Acea Group company that manages distribution and metering of electricity in the municipalities of Rome and Formello. The plan, which will run for 15 years, from 2020 to 2034, involves the replacement of current first-generation (1G) electricity meters with 2G smart meters for all users in the municipalities served by areti.

Replacement of the meters marks the entry into use of the electricity grid of the 2G technology, with significant benefits for users, sellers and distributors. With the 2G smart meters, using a metering system that makes data available after just 15 minutes, customers can easily check their consumption and adapt it based on their daily domestic habits. The functionality of the new smart-metering system will also enable and promote the use of advanced services to improve energy efficiency and protect the environment. New technologies will also allow identification of faults on local grids and meters more efficiently, reducing service restoration times and problems for citizens.

Specifically, the fifteen-year plan includes a phase of mass replacement of electricity meters, which began in October and will be completed at the end of 2025. This mass replacement phase was preceded by a pilot phase in September in the Rome IX Municipality.

Acea SpA the Board of Directors approves the 2020-2024 Business Plan

On 27 October 2020, the Board of Directors of Acea approved the 2020-2024 Business Plan, which focuses heavily on sustainability. The Plan's main goals are: 1) average annual growth in EBITDA of approximately 7%, € 1.3 billion in 2022 and € 1.4 billion in 2024 with a

total increase by the end of the Plan of 38%, 2) € 4.7 billion of investment in the 2020-2024 period, up approximately € 700 million compared to the previous Plan, 3) NFP/EBITDA ratio in 2024 of 3x and NFP/RAB in 2024 of 0.7x and (iv) total dividends of € 860 million in the 2020-2024 period, up compared to the previous Plan, with a minimum DPS in 2021 of € 0.80.

Acea SpA Fitch Ratings confirms Acea's "BBB+" rating and "stable" outlook

On 14 January 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 Unsecured Rating of "BBB+" was also confirmed.

Confirmation of the rating reflects the focus of the Group's strategy on regulated business, strong operating performance and a good level of available liquidity. These factors offset the increase in debt linked to investment programmes in innovation and sustainability included in the 2020-2024 Business Plan.

Acea SpA successful completion of the first Green Bond placement for € 900 million

On 21 January, Acea SpA successfully completed placement of its first Green Bond issue for a total amount of € 900 million, in two series, in the context of the Green Financing Framework recently published and under the € 4 billion Euro Medium Term Notes (EMTN) programme (the "Bonds"), with the Base Prospectus as last updated on 24 July 2020 and subsequently amended on 15 January 2021. The first series totalled € 300 million, with a rate of 0% and maturity on 28 September 2025 (the "2025 Bonds") and the second series totalled € 600 million, with a rate of 0.25% and expiry on 28 July 2030 (the "2030 Bonds").

MAIN RISKS AND UNCERTAINTIES

Due to the nature of its business, the Group is potentially exposed to various types of risks, mainly from natural events, climatic changes and financial market risks (external risks) and operational and environmental risks specific to each business sector, Information Technology and Human Resources (internal 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 (Enterprise Risk Management 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 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 business sector 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.

More specifically, 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.

COVID-19 HEALTH EMERGENCY

The international health emergency caused by Covid-19, commonly referred to as "Coronavirus", has evolved rapidly over the past few months. This has led the Italian government to put in place a series of provisions that are both restrictive and of an emergency economic nature, the duration of which it is still impossible to predict at this time, entailing a substantial change in both the internal and external context.

The Acea Group immediately implemented a series of actions to protect all stakeholders, adapting the policies from time to time as the situation evolved.

The main measures implemented during the period are shown below.

EMPLOYEES AND WORKERS

Safety during the Covid-19 pandemic

From the beginning of the February, the Acea Group implemented prevention and protection measures for management of the risk of Covid-19 infection.

For the activities carried out by Acea Group Companies, exposure to Coronavirus does not pose a professional risk as employees perform tasks that do not increase their risk compared to the rest of the population.

However, since working activity created the possibility of people coming into contact with others exposed to the virus, a protection strategy was immediately planned aimed at limiting the impact on the organisation based on a risk assessment.

The main measures implemented are as follows:

- dedicated training courses and information materials;
- internal circulars and guidelines for Group companies in order to ensure a coordinated response to the emergency;
- creation of dedicated communication channels for the emergency (intranet section, email address and multimedia signage);
- publication of the Protocol for Management of Covid-19 cases within the company – Communication Flows;
- revision of the Risk Assessment Document and the emergency plans for the Covid-19 health emergency;
- reorganisation of working activity;
- large-scale teleworking those who can work remotely;
- integrated management systems for visitor flows;
- screening initiatives for employees:
 - two blood-testing initiatives conducted in partnership with the staff of the Tor Vergata hospital;
 - use of molecular swabs and rapid antigen swaps in partnership with the Gemelli hospital and Paideia Clinic reserved for Acea personnel and their families;
 - flu vaccination initiative for employees and family members they live with;
- adoption of all measures for prevention and protection from infection:
 - specific health protocols drawn up by the company physicians;
 - installation of thermal scanners to measure body temperature at site entrances. The choice to use video cameras for measurement of body also represents a sustainable investment, as these systems can be reused once the emergency is over to strengthen existing security systems;

- intensification of cleaning shifts and sanitisation of working environments;
- installation of devices for the sanitisation of hands;
- measures for the protection of the personnel of contractors;
- provision of significant quantities of PPE in kits for personnel authorised to enter the company premises;
- review of layouts;
- availability at the Medical Centre of lateral flow test kits for qualitative identification of new Corona viruses in saliva samples, both for employees that request them and for employees subject to routine examinations;
- protection of personnel who are particularly fragile or with current or existing disease;
- specific measures for the management of all common areas and regulation of the use of environments in order to maintain social distancing;
- sanitising films to reduce bacterial load;
- integrated management of visitor flows also using mobile-app solutions;
- application of formal procedures for the periodic assessment of the effectiveness of the measures undertaken, through supervision of the actual implementation of anti-contagion measures (monitoring conduct).

During the initial stages of the emergency, Acea activated a special insurance policy valid for employees who tested positive for Covid-19. To provide even more support to its employees, safeguarding their health and the health of their loved ones, the insurance policy was also extended to members of the “family units” (spouses or partners and children as per civil status) of employees, understood here as applicable for all contractual types, and all Companies of the Acea Group.

Teleworking – keeping people connected, close, active

Acting responsively, being resilient, managing uncertainty and recognising opportunities: these are all characteristics included in the Acea Group Leadership Model.

The same traits that over the years have made it possible to promptly manage emergencies and crises that are not infrequent in our business, the Covid-19 emergency being only the latest addition to the list.

Since 2018, with the launch of the Smart People project, a new managerial and organisational mindset has been developed, and in the meantime most employees have been equipped with agile work tools and sharing platforms.

This has made it possible to respond positively to an unprecedented stress test of remote working forced by the current health emergency, enabling more than 85% of the company’s population to work from home.

The immediate implementation of teleworking was also made possible thanks to the rapid preparation of connectivity infrastructure and the completion of personal IT equipment by the Innovation, Technology & Solutions Function.

This has allowed the Acea Group to continue to work effectively on all business processes, including those related to the journey typical of people management: selection, welcoming, training, bonuses and development.

This critical moment has become a new opportunity to experiment with innovative ways of working, rethink work organisation, streamline processes, plan activities differently, identify new skills and roles in the company, activate training and development/self-development paths linked to new needs.

To deal with feelings of isolation, loss and difficulty in maintaining high levels of concentration and performance while dealing with critical circumstances and the need for social separation, efforts were made

to create a sense of community and sharing and the employees responded quickly, showing a sense of team, an ability to share objectives, full autonomy and a strong sense of responsibility.

Industrial Relations and Welfare

On 3 March an Advisory Committee was established consisting of the trade unions, RLS, RSPP and the company physician with the responsibility of providing advice on measures to combat and contain the spread of the Covid-19 virus in workplaces, in line with the provisions of the Protocol signed between the government and the trade unions.

- progression of activity aimed at preventing the spread of Coronavirus;
- any requests for additional information;
- new prevention and protection measures to be adopted.

Various Agreements were signed in 2020 with Trade Unions regarding measures to contain and combat Covid-19.

The agreements, confirming the suitability and efficacy of measures adopted in each case by the Group, introduce further organisational initiatives, including distance training, collective closures, use of individual entitlements, flex-time working, governance of teleworking during the emergency, with the aim, on the one hand, of avoiding the use of social shock absorbers in order to limit the economic and social impacts of Covid-19, and on the other of allowing continuation of working activity in safety and optimising organisational flexibility.

In the second half of 2020, the Joint Body (Companies and Labour Representatives) initiated dialogue aimed at analysing the processes regarding activities performed remotely, with the goal of improving this method of working in the period after the Covid-19 emergency.

In line with the commitments made in the Group Framework Agreement of 14 February 2018, in on 30 July 2020, Acea established a new Agreement with Trade Unions regarding welfare for management of personnel turnover connected to retirement, the so-called “*Isopensione*” scheme, for the four-year period 2021-2024.

This pension bridging scheme is issued by INPS, with a contribution from the company, and is aimed at middle managers, white-collar workers and blue-collar workers who have the prerequisites to receive a standard or early-retirement pension in the four years following termination of their working relationship. The possibility to access the “*Isopensione*” scheme in 2021 is established at Company level based on the number of applications received in the timeframe defined by the Agreement, subject to an order of priority connected to conditions of health, proximity to pension access and professional category (middle managers and white-collar workers).

INVESTORS

In 2020, the health emergency led to a significant global financial and economic crisis. Stock exchanges all over the world initially saw strong declines, but then partially recovered losses thanks to monetary and fiscal measures taken by central banks and governments. In this context, the Green Deal and the Recovery Fund proposed by the European Commission, will allow the relaunch of investments that represent the key to economic recovery, prioritising environmental considerations and climate change.

Acea operates in sectors that are sustainable by nature and will be able to make the most of opportunities arising from an acceleration in investments in infrastructure and renewable energy, contributing to the country’s economic recovery.

Stock markets all over the world recorded sharp losses, above all in March and April, owing mainly to the effects of the lockdowns decided by the various countries to limit the pandemic.

The performance was positive overall for the US and Asian indices. The European stock markets went in the opposite direction and, with the exception of Frankfurt, recorded a negative trend. Acea showed performance substantially in line with the Italian market, recording a drop of 7%.

SHAREHOLDERS AND LENDERS

In view of the fact that the characteristics of the businesses managed by the Acea Group, 85% of whose EBITDA is generated by regulated activities, and in light of the chronology of events and news during the second half of 2020, the regulatory areas governing the Acea Group's businesses have not changed significantly due to the aforementioned health emergency.

However, cash inflows declined slightly in the short 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.

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.

CUSTOMERS AND THE MARKET

Environment Segment

The companies of the Environment Segment provide essential public services, and therefore are exempted from the suspension of production established by the Italian ministerial decrees issued over time to combat the epidemiological spread of Covid-19.

During the lockdown there was a temporary reduction in the SRF input at the San Vittore waste-to-energy plant resulting from the treatment of unseparated waste produced in the Rome area, given the substantial drop in tourism and commuting. However, Acea Ambiente has implemented measures to compensate for the effect, reserving additional and temporary space for the other contributors. In any case, things have currently returned to normal.

There have also been localised reductions of some special waste delivered to some liquid waste treatment platforms of the Segment due to the shutdown of manufacturers.

The other plants operated at substantially the same productivity levels as before the spread of the epidemic.

Specific regional ordinances have also identified the treatment plants of San Vittore del Lazio (UL3) and Orvieto (UL4) as facilities for the destination of unseparated waste produced by the infected or quarantined persons in their respective regions (Lazio and Umbria).

Almost all regions have issued ordinances halting separated collection for infected and quarantined persons, with impacts on the type and quantity of urban waste entering the Segment's facilities. Until 30 September 2020, amounts have not been very significant, therefore this has not generated significant effects beyond those indicated above.

Water Segment

Market context

Despite the need to stay at home or in any case to limit travel, water consumption has not changed and has remained almost constant due to the combined effect of the reduction in consumption of non-domestic users (industrial, commercial, etc.) and the increase in consumption of domestic users. In large cities there has been a reduction due to the blocking of tourism.

In compliance with the provisions of the regulations pertaining to the Covid-19 health emergency, as well as in compliance with the Resolutions of ARERA, the main preventive and precautionary measures taken by the IWS operators of the Acea Group to ensure continuity and availability of the service in conditions that are safe for the public and operators concerned entail, among other things:

- raising awareness of the use of alternatives to physical branches – web, apps, toll-free numbers, emails through which it is possible to carry out any type of activity – following closure and/or appointment-based access of physical branches in order to ensure social distancing;
- the suspension – from before the provisions of ARERA – of debt recovery activities, in particular service disconnections, as well as the opportunity for users in financial difficulty to request the deferment of the payment terms of expired or expiring bills;
- the division into instalments of bills due, issued, or with consumption dating to the emergency period.

Additional measures to protect users compatible with current regulatory legislation (Resolutions 580/2019/R/idr and 235/2020/R/idr) are being shared with the Area Governing Bodies of the territories served.

Areti SpA

The health emergency period and the subsequent lockdown imposed by the government inevitably affected national electricity needs, providing a measure of the impact of the epidemic on the real economy. The subsequent reopening of businesses mitigated the percentage value of the reduction in electricity demand.

Total electricity fed into the areti grid (from the national transmission grid, from generation plants connected directly to the areti grid and from the interconnected E-Distribution grid) decreased in 2020 by 8.85% compared to energy fed into the grid in the same period of the previous year.

The reduction in electricity consumption, combined with the sharp decline in gas and CO₂ prices, mainly driven by a slowdown in the world economy, also pushed down electricity prices.

With regard to the distribution of electricity around Rome, it should be noted that the legislative interventions related to the Covid-19 emergency, which have forced the closure of numerous commercial and industrial activities, have led to a significant reduction in the energy distributed through the grid managed by areti SpA, essentially in line with what is happening nationally.

With regard to measures to support the users of essential services, in line with the provisions of ARERA areti suspended disconnections of families and companies due to arrears in all the territories served. Consequently, any electricity service suspended, limited or deactivated after 10 March 2020 was switched on again.

With specific reference to electricity distribution companies, ARERA issued the following measures:

- Resolution **116/2020/R/com** and subsequent amendments and additions introduced a series of exceptions to the rules on non-fulfilment of contractual obligations pursuant to the Grid Code providing for the option for electricity vendors and distributors to pay, for the months April-July 2020, amounts less than those invoiced. Consequently, Resolution 248/2020/R/com defined the methods of reimbursement of the network expenses not paid by the traders, and the general system expenses not paid by the DSOs to the CSEA and the GSE;
- Resolution **190/2020/R/eel** provided for urgent actions to implement the Italian Relaunch Decree Law on the reduction of expenditures incurred by low-voltage electricity user accounts other than domestic users for the months of May, June and July 2020. The action regarded a reduction in the fixed components of the network tariffs and the general system ex-

penses for customers with committed power of more than 3 kW. The provision had an exclusively financial impact for distributors given that the constraint on revenue was guaranteed by the offsetting mechanism activated with Resolution **311/2020/R/eel**;

- Resolution **213/2020/R/eel** introduced a series of amendments to the current regulation on the installation of 2G smart metering systems for the year 2020 aimed at avoiding penalties for distribution companies for events arising from Covid-19. The main changes for 2020 concern the preparation of indicative detailed plans for the mass phase, the suspension of penalties envisaged in case of progress below the forecast set out in the Plan, and the suspension of application of the “Information Quality Incentive” matrix. These changes apply also to areti’s Plan, approved by the Authority with Resolution **293/2020/R/eel**.

In addition, with Measure **432/2020/R/com**, ARERA introduced a whole series of extraordinary changes on the subject of technical quality, resilience, testing of riser cables and automatic indemnities not disbursed by the distribution companies on commercial quality performance not achieved owing to force majeure.

With regard to energy production, Acea Produzione sells the energy produced by its plants on the wholesale markets, which are currently seeing prices more than 25% lower than the previous year. Some of these negative effects are mitigated by the lower purchase cost of commodity gas and CO₂ used in thermal power generation as well as by the presence in the portfolio of plants from incentivised renewable sources (these plants mainly have a regulated revenue structure and therefore only partly dependent on wholesale energy prices).

A further impact on Acea Produzione’s activities is the slowdown in certain investments caused by the suspension of the projects under way. Most of these activities were recovered in the course of the year. Only the continuation of the lockdown could lead to the rescheduling of certain investments to next year.

Commercial and Trading Department

In addition to applying the provisions established by the Group, using a poster in the building di piazzale Ostiense and the Ostia branches open to the public Acea Energia has widely disseminated informative materials such as the guide of the Ministry of Health, the correct procedure for washing hands and the provisions relating to social separation. Hand sanitising gel distributors were installed in these same spaces.

As the main preventive measure, from 10 March the employers decided to implement mass use of teleworking for Acea Energia personnel who could work remotely and for employees at the Ostia branch, closed on that same date. The staff of the Ostiense branch were equipped with adequate protective devices until the closure to the public on 16 March, the employees then shifting to teleworking.

Due to the Covid-19 epidemiological emergency, the piazzale Ostiense branch was closed from 18 March to 1 June. The reopening was preceded by the preparation of the branch’s spaces, including the affixing of horizontal and vertical signs to channel flows and maintain distance between customers both outside and inside the branch and between customers and personnel. To this end, the use of the desks inside the branch has been discontinued and the number of active counters has been reduced in order to manage the internal/external spaces of the branch and behind counters, guaranteeing the safety of Acea Energia customers and operators. Furthermore, the entrance of customers into the branch is managed, a body-temperature measuring point is present at the branch

entrance, it is mandatory to sanitise hands and wear a face mask, and a telephone reservation service has been put in place with a dedicated toll-free number. The reopening of the Ostia branch has been postponed until a later date. From 9 November, access to the piazzale Ostiense branch is possible on appointment only.

Since the onset of the epidemic, customers have been advised of the possibility of managing their accounts via telephone, chat systems, customer areas in the websites and apps on smartphones. Similar information has been published on the websites www.acea.it (Free Market), www.servizioelettricoloroma.it (standard-offer market) and on the social networks of the Free Market (Acea Energia Facebook page), with the tagline “We remain close to you, even from afar” and the hashtag #iorestoa casa (#imstayinghome).

Emails were also sent to customers in the open and standard markets to encourage the use of the customer area on the website.

Acea Energia has used the surveys carried out regarding customer conduct during the lockdown to verify the effectiveness of these tools and the further development of virtual channels and services.

The contact centre is always remained active, and for the entire duration of the lockdown it has guaranteed qualitative and quantitative alignment with the service offered before the health emergency.

Furthermore, in compliance with the legal provisions for the prevention of the spread of Covid-19, throughout the lockdown Acea Energia suspended door-to-door sales and closed the Acea Shops. These activities were restarted in May with the beginning of Phase 2. The toll-free number 800.130.333 for commercial offers has remained active throughout, and telemarketing continued even during the lockdown.

All customer management back office activities, including the response to written requests for information and complaints, are guaranteed by teleworking staff.

The period during which the branches were closed allowed those employees to be deployed to back office services, further improving service performance.

In compliance with the provisions of ARERA, Acea Energia has blocked disconnections due to the late payment of electricity and gas bills for the period of the maximum emergency. The Company has also voluntarily taken extraordinary measures with respect to its customers throughout the country both in relation to payments and to ensure the management of commercial or care requests, reinforcing the back office units in the operations area. More specifically, all debt collections were halted along with the stoppage of suspensions due to arrears, and exceptional instalment payments were introduced during the emergency period.

Always in compliance with the provisions of ARERA, credit collection was restarted in July, maintaining the utmost attention to situations of fragility caused by the health emergency.

The overall impacts of the emergency on the sector are being assessed by all stakeholders in the electricity and gas supply chain, starting with ARERA. Of particular relevance are the effects of the lockdown on the consumption of the business segment (both for large and industrial customers and for small and micro customers, such as professional firms and commercial activities).

LOCAL COMMUNITY

Sustainable Development Goals (SDGs)

The Covid-19 pandemic that spread worldwide in the first months of the year, affecting every consolidated structure of human existence starting with the protection of health and the exercise of normal social dynamics, has underscored the major critical issues of an unsustainable development model. Important insights into the cause and effect relationships between social, economic, environmental and infrastructural aspects of the pandemic have been ini-

tiated and are ongoing to date, but there seems to be a shared view that a better approach to sustainability could and will reduce and mitigate the negative effects of other similar events in the future. Responses to the emergency by institutions, businesses and civil society were aimed at safeguarding life and health, ensuring, as far as possible, the continuity of personal activities and mitigating the social repercussions of the inevitable negative impacts caused by the lockdown.

In this situation of crisis and uncertainty, utilities demonstrated their resilience, maintaining ordinary operating conditions in the performance and provision of public utility services that allowed hard-hit communities to enjoy a certain level of safety and normality. Numerous initiatives were put in place to protect the broad audience of stakeholders, from company personnel to users and local communities.

Today, having made it through the toughest moment for the country, we start a new phase of reprogramming a new context and a new development model where the pursuit of sustainability objectives remains a central focus. All public institutions, from the European Union to the Italian government, have moved in this direction. The confirmation of the Green Deal and sustainability objectives by the Commission is evidenced by the political programmes and financial instruments currently being defined, aimed at allowing a recovery that is not only a resumption of previous conditions but a leap forward, a transformational resilience.

The Acea Group is facing this moment fully aligned with these perspectives. It managed the emergency phase with the utmost care for the protection of its stakeholders and is planning to return to a new normal, drawing on the experience and steadfastly confirming its choice of a sustainable and socially responsible management model.

Local initiatives

Throughout the health emergency, Acea helped local authorities that worked on the front lines by offering technical and financial support. In fact, the Committee responsible for Sponsorships and Donations has approved a series of appropriations for the structures included in the Covid-19 network, including:

- Agostino Gemelli Hospital in Rome: contribution for the preparation of a new department in the Columbus clinic;
- San Pio Hospital in Benevento: contribution to the purchase of instruments for intensive care at the only city hub receiving patients suffering seriously from Covid-19;
- Salvo D'Acquisto barracks in Rome: free supply of electricity to supply the mobile hospital set up by the Palidoro Mobile and Specialised Carabinieri Unit Command;
- INMI Lazzaro Spallanzani of Rome: donation following the internal fundraising promoted by Acea that involved employees and the CRA;
- Istituto Dermopatico dell'Immacolata (IDI) in Rome: financial contribution for the preparation of a new intensive care department.

Furthermore, a contribution was made to the Community of Sant'Egidio in Rome for the urgent purchase of food and sanitary equipment (sanitising gels, detergents, masks) to be distributed to the homeless and the less well-off.

During the period of greatest need, electricity was supplied free of charge to the mobile hospital set up by the Rome Palidoro Mobile and Specialised Carabinieri Unit Command.

Even in the months following the lockdown, prevention and protection remained the primary focus, especially with respect to the most vulnerable members of the population. To this end, contributions have been made to:

- the Italian Multiple Sclerosis Association for the procure-

ment of medical equipment (FPP2 and FPP3 masks, disinfectant gel, single-use gowns and gloves, thermoscanners) essential for the safe continuity of services offered by Rehabilitation Centres;

- the Italian Red Cross – Rome V section, which with its volunteers offers, among other things, the service of shopping and delivering medicines at home to the elderly and fragile, as well as distributing food to the most needy families as identified by the Municipality of Rome.

At the same time, with the relaxation of the most restrictive measures, Sponsorships have resumed in support of sporting and cultural events that take place outdoors and with strict procedures in compliance with current legislation, allowing the public to engage in social events after a long period of isolation and offering the Acea Group a chance to help revive the territory it operates in.

INSTITUTIONS

Granting the requests received from the major institutions – the Presidency of the Republic, the Presidency of the Council of Ministers, the Constitutional Court and the Capitol – wanting to send a strong signal to Italians and to express a sign of solidarity and hope in this difficult and dramatic period, the Acea Group illuminated their respective institutional buildings with the Italian colours.

THE SUPPLY CHAIN

Considering the impact of the ongoing health emergency on the economy and the restrictive measures adopted by the Italian government to contain the contagion, given the need to ensure the continuity of supplies the Acea Group has carried out an analysis of the supply market, with particular reference to strategic suppliers/contractors that may be in a situation of contingent difficulty in order to adopt any necessary corrective/preventive actions.

Still today, no guarantees are required to accompany the offers and the obligation of a preliminary inspection for the submission of a bid has been abolished.

COMPETITIVE-REGULATORY RISKS

Regulatory evolution risk

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 (Regulatory Authority for Energy Networks and Environment – ARERA). The Group is therefore exposed to the evolution of the relevant legal/regulatory frameworks in the areas served.

In this regard, it should be noted that following the extension of ARERA's regulatory and control powers to waste management, Companies in the Environment Segment are also exposed to potential risks arising from changes in the regulatory framework.

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.

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 achievement of economic/financial objectives and investments, as well as on the implementation of 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.

NATURAL RISKS

Some of the risk 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 changes on the networks and plants managed by Acea Group companies. The first types of risks are addressed through the implementation of structured tools for the governance of assets, specific to each business area (e.g. Water Safety Plan within the IWS; constant monitoring of the reservoirs, also carried out in collaboration with the competent Ministry, in the field of dam management), as well as with projects, some of national scope, aimed at increasing the resilience of the infrastructure in the various regions (e.g. the project to double the Peschiera-Le Capore aqueduct). The residual portion of risks from natural events is covered by the Group's insurance programme mentioned on the previous pages.

For many years now, the Acea Group has been demonstrating its solid commitment to tackling and mitigating the risks related to climate change, not only through the reporting included in its Sustainability Report, but also by disseminating its strategies and illustrating the actions taken and the initiatives organised through participation in the Carbon Disclosure Project (CDP), confirming its score of A- and inclusion in the Leadership category.

This important result has further stimulated the Acea Group to progressively align with the recommendations of the Task Force on

Climate-related Financial Disclosures (TCFD), not only in its metrics and targets, but also in its governance and risk and opportunity management, as a useful tool for improving its strategy for mitigating and adapting to future scenarios.

In fact, for the Acea Group, due to the nature and location of its business lines, the main issues related to climate change could arise in operational, regulatory and legal areas, with potential effects also on finances. As far as the first aspect is concerned, chronic meteorological events like the reduction of rainfall can have negative impacts on both hydroelectric energy production and the reduction of the availability of drinking water to be distributed, with among other things an increase in energy consumption for the withdrawal of water from less favoured sources. On the other hand, extreme phenomena such as storms can lead to the risk of lightning strikes, blackouts or, for the water network, overflow of drains connected to the wastewater systems and turbidity of the water sources. Moreover, from a regulatory and legal point of view, these climatic effects can have an impact on the consequent provision of the service in accordance with the regulations in force, with consequent financial penalties. The implications of regulatory actions on CO₂ emission allowances, renewable sources, taxes and energy efficiency certificates could be very significant, with possible financial impacts.

OPERATIONAL RISKS

Regulatory compliance risk

The nature of the business 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 commercial 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 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 such as market allocation, manipulation of tender procedures, restrictive agreements and other types of anti-competitive agreements, exchange of commercial/competitive information that potentially constitutes the creation of a cartel).

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. 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.

Following the introduction of some crimes that expand the catalogue of predicate offences capable of triggering the responsibility

of the Bodies pursuant to Italian Legislative Decree no. 231/2001, the Acea Group has started the progressive updating of the companies' respective organisational models, starting with that of Acea SpA, approved by the Board of Directors on 22/01/2020. In addition, preparations have begun for updating the Model for the law converting Italian Decree Law no. 124/2019 of 17 December 2019 that came into force on 25 December 2019, which introduced some tax crimes among the predicate offences in Italian Legislative Decree no. 231/2001, and Italian Legislative Decree no. 75 of 14 July 2020 adopting the "PIF Directive".

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 231 of 2001 and/or violations of the 231 Model, expanding the possible channels of communication to include a specific IT platform, 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.

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, relative to investigations and proceedings for significant cases pursuant to Italian Legislative Decree 231/2001 concerning 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 Chairpersons of the Company and the representatives of the supervisory body of this company. During 2020, notification was received that the preliminary investigations had been completed, pursuant to art. 415-bis.

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 compli-

ance solutions already adopted.

In 2020, the servers of a mail distribution supplier used by some Group companies was affected by a Data Breach, also reported to the Data Protection Authority. No findings arose from the extensive investigations that indicate the event involved a breach of personal data that could generate significant negative effects for individuals, causing physical, material or non-material damage. In any case, the Companies involved took prompt action in accordance with the procedures applied within the Group, implementing safeguards with the support of the DPO. Furthermore, specific lesson-learned actions were adopted in order to consolidate control over processing, strengthening the connected protection measures.

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 connected to the risk of possible progressive concentration of operators in these markets, with an impact on the Company's customer base growth plans and its positioning.

Regarding the Electricity Service for the standard-offer market, there is risk connected to development of the relevant regulatory framework, which has a significant impact on the growth of Acea Energia's customer base, due to the disadvantage of the company compared to other operators, as the mix of the Company's power customers, compared to that of its primary competitors, is unbalanced in favour of the Electricity Service for the standard-offer market. This situation carries the risk of Acea Energia being penalised due to: 1) the inability to perform and commercial activity with regard to customer of the standard-offer market; 2) being conditioned by tariffs regulated by revenues and margins of the Electricity Service for the standard market; 3) exposure of a significant portion of its customer base to the impacts of policies that were adopted with a view to moving away from the Electricity Service for the standard market from 1 January 2022.

In the context of Acea Energia's operating activities that, as a commercial company it represents the single point of contact for end customers both for the electricity and gas Free Market and for the Electricity Service for the standard-offer market, there is risk linked to the possibility of inadequate levels of performance on the part of Distributors regarding: 1) identification and prompt communication of measures (with impacts on estimate-based invoicing and limitation); 2) actions to suspend supply to active customers with arrears (with impacts on credit collection activity); 3) activities within their remit for satisfaction of commercial requests of customers (with impacts on customer care and complaints).

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 collection procedures, 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 risks section.

Networks Area

Potential sources of risk referable to the distribution of electricity in the Municipalities of Rome and Formello 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) and the monitoring of information security and systems.

With regard to plant safety, the Companies operate by implement-

ing 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.

In general, the main risks falling within this business segment 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 deadlines** for obtaining prescribed authorisations, regarding both the construction and start-up of plants (pursuant to Lazio Regional Law 42/90 and related regulations) and performing work (authorisations of Municipalities and other similar authorisations), according to the need to develop and enhance the plants.

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 and applied new technologies (automation of medium voltage network, smart grids, etc.).

As far as the risk linked to **work quality** is concerned, areti has implemented operational, technical and quality control systems. 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 performance of the service. Note that a particularly critical point is the long response times of a number of the administrations contacted.

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.

Potential sources of risk related to the electricity production sector derive from fluctuations in the energy markets within the broader macroeconomic context, from regulatory developments – in particular with regard to the awarding of hydroelectric concessions – and from the risks related to the business continuity of operations, with possible consequences in terms of non-production of the plants.

For the management of operational risks, Acea Produzione has

taken steps from the beginning to implement a series of computer and physical security measures for the plants, together with a system for measuring and monitoring benchmarks each day and based on events, the results of which constitute input to the management process of the maintenance and revamping programmes for plants and machinery. The company also participates in the aforementioned Group Insurance Plan, stipulating policies with leading insurance companies to cover any damage. The company places particular importance on training to update its employees, and at the same time on definition of new internal organisational procedures that describe the company activities and procedures of production sites/units, indicating how the relevant responsibilities are assigned, methods for performance of recurring maintenance works, combining technical specifications for operations with safety measures to adopt in performance of activities. This activity is also carried out through voluntary adoption of a Health and Safety Management System in company workplaces pursuant to standard UNI ISO 45001:2018 certified by an accredited external body.

Production

Potential sources of risk related to the electricity production sector derive from fluctuations in the energy markets within the broader macroeconomic context, from regulatory developments – in particular with regard to the award of hydroelectric concessions – and from the risks related to the business continuity of operations, with possible consequences in terms of non-production of the plants, as well as from the implementation of the development plans of the 2020–2024 Business Plan (growth in the photovoltaic sector through M&A and the construction of plants).

For the management of operational risks, Acea Produzione has taken steps from the beginning to implement a series of computer and physical security measures for the plants, together with a system for measuring and monitoring benchmarks each day and based on events, the results of which constitute input to the management process of the maintenance and revamping programmes for plants and machinery. The company also participates in the aforementioned Group Insurance Plan, stipulating policies with leading insurance companies to cover any damage.

Environment Segment

Waste treatment plants are characterised by a high level of technical complexity, which requires the management by qualified personnel and organisational structures with a high level of expertise. These and their activities are defined based on the 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.).

All plants in the Segment were involved in optimisation and revamping projects that present the risks typically related to the construction of complex industrial infrastructure (construction and performance defects). Specifically, the plants of Orvieto, Monterotondo Marittimo and Aprilia were affected by significant recent works for 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 subsidised production of electricity and the performance of services of public importance, could lead to limited (and in certain cases 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 all other 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, and appropriate Environmental and Occupational Health and Safety Management Systems have been adopted and continually monitored by all companies in the Segment.

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.

Commodity Risk

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 envisaged in the sales contracts (sale profile) or, in general, the balancing of positions in the portfolios.

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 EnergiaSpA, verifying compliance with the limits and criteria adopted by the General Risk Management of the Commercial and Trading Sector and by the Administration, Fi-

nance and Control Department in line with the Acea SpA's "Guidelines for the Internal Control and Risk Management System" and the specific procedures. 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 Sector 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.

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, 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, or other instruments aimed at hedging commodity price risk. 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 end customers within and outside the Acea Group) and commodities (e.g., Electricity, Gas and EUA);
- daily checks on observance of limits applicable to the various Commodity Books.

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.

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.

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.

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.

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.

As far as cyber security of systems, infrastructure, networks and other electronic devices is concerned within the scope of the services provided or the respective Group Companies, the current procedural and technological safeguards of the Companies themselves are implementing all the necessary actions to align their cyber security posture with the main national and international industry standards in order to increase their resilience to risks of this nature, possible repercussions in terms of business interruption and regulatory non-compliance. Technological and organisational measures are being implemented with the aim of:

- 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;

- 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.

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 short/medium-term 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 elements of uncertainty faced by the Group include the potential economic, financial and reputational impacts associated with the closing of 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 2019 Acea issued the new guidelines of the credit policy to make it consistent with the ongoing organisational changes and the Credit Risk Profiling project, with which different credit management strategies have been identified. The “Scoring and customer credit limit” procedure for non-regulated markets was also issued. The Credit Check system, which has been operating in unregulated markets for several years and with which all new mass market and small business customers are checked through customised scorecards, was integrated with the CRM in 2018.

Project work on Credit Risk Profiling (three-year period 2019-2021), the operational scope of which was recently redefined and broadened, has been fully launched and has the macro objectives of 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, which was released into production in June 2020. 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 has also been 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. This guides dunning activities both in terms of customer type (public and private) and behaviour of individual customers (score).

The structures of each company responsible for managing credit report functionally to the Acea Corporate Credit Unit that guarantees end-to-end supervision of the entire process.

The mass management of active and inactive receivables of a limited amount was carried out by 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 inactive customers with significant amounts due.

As a result of these interventions, in recent years 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.

Following the global health emergency that arose in March 2020, the provisions dictated by the government and the competent Authorities were applied, both in terms of occupational safety and business management.

This context determined a slight decrease in income in the first part of the year, largely recovered at the end of 2020, also through the option for customers in difficulty to pay in instalments, in order to allow the gradual correction of the relative positions.

As in previous years, this year the Group has set up non-recourse, revolving and spot transactions, of receivables from private custom-

ers 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	Stable	14/01/2021
Moody's	Baa2	Na	Stable	08/08/2019

OPERATING (AND FINANCIAL) OUTLOOK

The results achieved by the Acea Group at 31 December 2020 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 2020, 81.1% 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 2020 the average duration of medium/long-term debt stood at 5.4 years. Note that the reduction of the average cost went from 2.15% of 31 December 2019 to 1.74% of 31 December 2020.

For the year 2021 Acea expects:

- an increase in EBITDA between 6% and 8% compared to 2020;

- investments of approximately € 900 million;
- a net financial debt between € 3.85 and € 3.95 billion.

With regard to the Covid-19 state of emergency, the Acea Group immediately implemented all the necessary actions to ensure continuity in the services provided in the region, preserving quality and efficiency and at the same time ensuring the safety of its people through the adoption and implementation of the necessary prevention protocols. In addition, the high level of digitisation has allowed the implementation of an effective teleworking plan in all areas of the Group's activities.

The response of Acea personnel, the characteristics of the businesses managed by the Group and its financial strength have made it possible to cope with the crisis situation with timely and effective actions that are evident in the period's results.

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 2020, equal to € 177,760,881.74, as follows:

- € 8,888,044.09, equal to 5% of profit, to the legal reserve,
- to distribute a total dividend of € 170,038,325.60 to Shareholders, corresponding to a unit dividend of € 0.80 per share equal to the entire distributable profit for the financial year

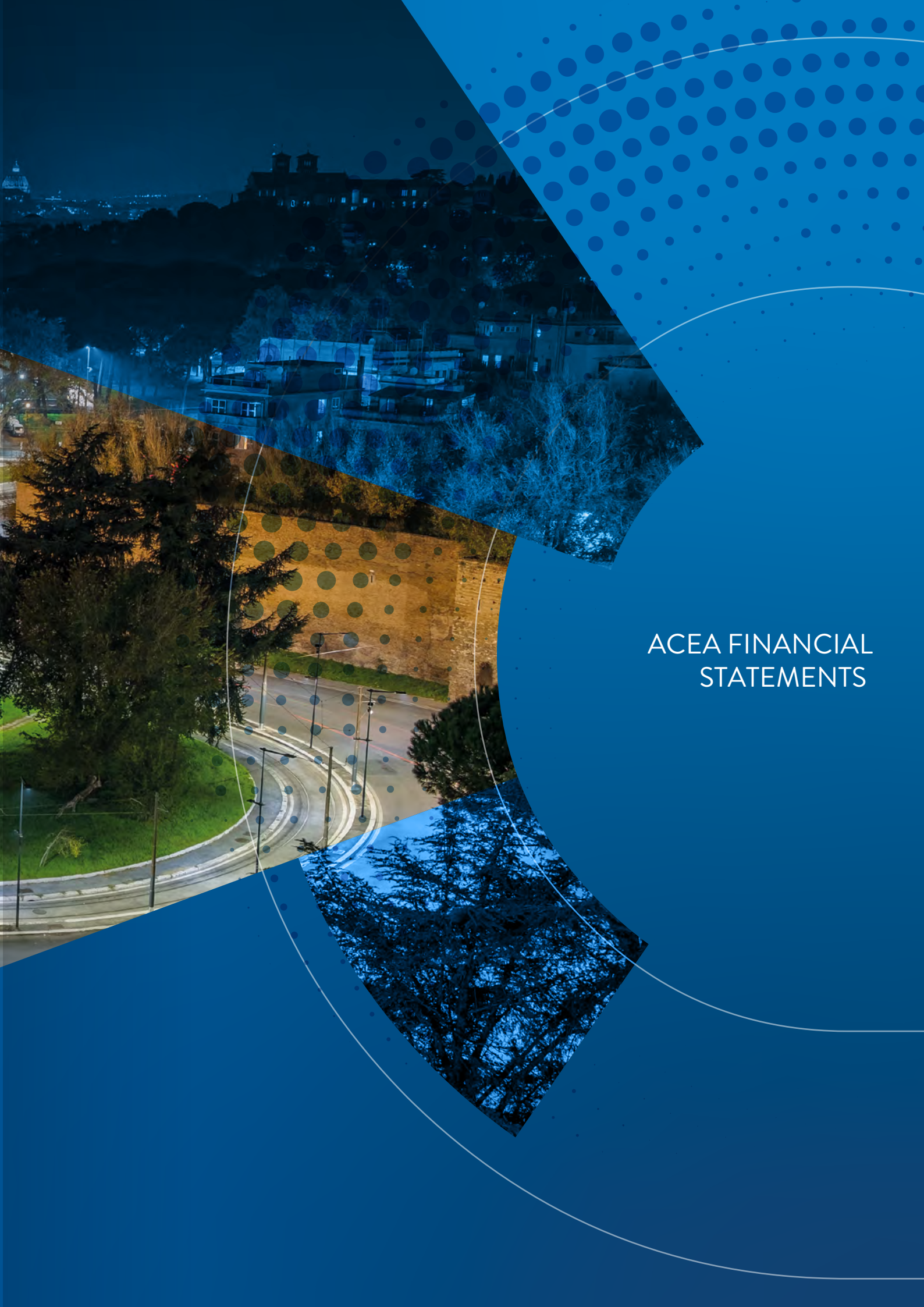
ended 31 December 2020 of € 168,872,837.65 and retained earnings of € 1,165,487.95.

The total dividend (coupon no. 22) of € 170,038,325.60, equal to € 0.80 per share, will be paid starting from 23 June 2021 with coupon detachment on 21 June 2021 and record date 22 June 2021.

On the date of approval of the Financial Statements, treasury shares amounted to no. 416,993.

Acea SpA
The Board of Directors





ACEA FINANCIAL
STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

The Financial Statements of Acea SpA for the year ended 31 December 2020 were approved by Resolution of the Board of Directors on 10 March 2021, 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 2020 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 2020 have been drafted in Euro and all amounts are rounded to thousands of Euro unless otherwise indicated.

ALTERNATIVE PERFORMANCE INDICATORS

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. These guidelines were transposed into our system with 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:

- 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;
- 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;
- 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;
- 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 calculating the net financial position.

USE OF ESTIMATES AND ASSUMPTIONS

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.

RISKS CONNECTED TO THE CORONAVIRUS (COVID-19) EMERGENCY

Please see the Report on Operations for a description on the main impacts the Covid-19 emergency had on the Group’s activities. Note that at present these impacts have not had significant effects on the Income Statement, nor has it created uncertainties that

would reflect negatively on the presumption of the business as a going concern.

Finally, in the *Impairment Test* section below, the execution of the impairment test pursuant to IAS 36 is outlined, done so to take into account the global pandemic, which did not indicate a need to

carry out any write-downs on the carrying values of tangible and intangible assets.

Relative to the recoverability of receivables, no particular risks were identified.

ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The most significant principles and criteria are explained below.

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 value 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. They are classified in the Income Statement under the item investment 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 disbursed at the time of or after termination of the employment relationship through defined benefit and defined contribution programmes (including: severance indemnity – TFR, extra months, tariff subsidies, as described in the notes) or other long-term benefits are recognised in the period during which the rights to these accrue. 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.

Expenses deriving from retirement incentives for employees who took part in the “*Isopensione*” Plan and which meet the criteria defined in the Group's Plan were recognised in a specific Provision.

The Group takes the place of the reference national insurance insti-

tutions, in particular, the Provision was created to pay pension instalments due to early pensioners, as well as to pay presumed contributions during the period needed to achieve the right to the relative social security payments through the national insurance institutions.

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.

RIGHT OF USE

This item contains assets relative to application of international accounting standard IFRS 16, issued in January 2016 and in effect as of 1 January 2019, which replaced the previous standard on leasing, IAS 17 and its interpretations, identifying criteria for recognition, measurement and presentation, as well as the information to be provided with reference to leasing contracts. 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 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 standard introduces the concept of control to the definition used, in particular, 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:

- a. 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;
- b. 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 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.

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. The Company analyses the CGUs of the Group identified using its procedure, based on the impairment procedure.

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 repayable 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 PAYABLES AND OTHER LIABILITIES

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 2020

"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 IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform"

Issued on 26 September 2019, it explains the changes contained in the document "*Reform of the reference indices for the determination of interest rates*" aimed at providing temporary exemptions from the application of certain provisions on hedge accounting for all hedging relationships directly impacted by the reform of benchmark interest rates. Amendments are effective from the financial years beginning on or 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.

"Amendments to References to the Conceptual Framework in IFRS Standards"

Issued on 29 March 2018, it contains amendments to international accounting standards, essentially of a technical and editorial nature. Amendments are effective from the financial years beginning on or after 1 January 2020.

"Amendment to IFRS 16 Leases Covid-19-Related Rent Concessions"

Issued on 28 May 2020, it introduces a practical arrangement aimed at allowing the possibility for the lessee not to consider as amendments to the lease any concessions recognised as a result of Covid-19 (e.g. suspension of rent payments).

The lessee may therefore exempt itself from revising numerous contracts and need not redefine the respective lease liabilities by means of a new discount rate since it can treat such changes in a manner that does not involve a lease modification. This expedient, applicable to lessees and not lessors, is effective as of 1 June 2020 and is limited to changes to rent made through 30 June 2021, intended to mitigate the effects of Covid-19.

"Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform"

Issued on 27 August 2020, this introduces a reform for benchmarks used to determine interest rates in order to take into account the consequences of the financial disclosure reform (Regulation EU 2020/34 and the recommendations contained in the Council for Financial Stability Report of July 2014, "*Reforming Major Interest Rate Benchmarks*") so that companies can continue to comply with provisions, presuming that the existing interest rate benchmarks have not been changed following the reform of inter-bank rates. Companies will apply these changes at the latest starting from the first day of the first financial year beginning on 1 January 2020 or after.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AFTER CLOSURE OF THE YEAR AND NOT ADOPTED IN ADVANCE BY THE GROUP

“IFRS 17 Insurance Contracts”

On 18 May 2017, the IASB issued IFRS 17 “Insurance Contracts” which defines the accounting of insurance contracts issued and reinsurance contracts held. The provisions of IFRS 17, which supersede those currently envisaged in IFRS 4 “Insurance Contracts”, are effective from the financial years beginning on or after 1 January 2021.

“Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9”

On 28 May 2020, the IASB published an extension of the temporary exemption on application of IFRS 9, bringing the date to 1 January 2023, offering the possibility of aligning measurement criteria for financial instruments to the new accounting standard IFRS 17 to measure and recognise insurance contracts. The extension is effective for financial years starting on or after 1 January 2021.

“Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current”

Issued on 23 January 2020, it provides clarifications on the classification of liabilities as current or non-current. Amendments to IAS 1 are effective from the financial years beginning on or after 1 January 2023.

“Amendment to IFRS 3 Business Combinations”

Issued on 24 June 2020, it updates the reference in IFRS 3 to the Conceptual Framework in the revised version, without entailing changes to the provisions of the standard.

“Amendment to IAS 16 Property, Plant and Equipment”

Issued on 24 June 2020, it does not allow deducting the amount

received from the sale of goods produced before the asset was ready for use from the cost of the fixed asset. These sales revenues and related costs are recognised in the Income Statement.

Amendments to IAS 16 are effective from the financial years beginning on or after 1 January 2022.

“Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets”

Issued on 24 June 2020, it clarifies which cost items must be considered to assess whether a contract will result in a loss.

“Annual Improvements 2018-2020”

Issued on 24 June 2020, it includes amendments to:

- IFRS 1 “First-time Adoption of International Financial Reporting Standards”, where a subsidiary that applies paragraph D16 of IFRS 1 is allowed to recognise cumulative conversion differences using the amounts recognised by its parent at the date of transfer of the Parent Company;
- IFRS 9 “Financial Instruments”, which provides clarification on which fees to include in the ten per cent test in section B3.3.6 when assessing whether to eliminate a financial liability;
- IAS 41 “Agriculture”, where, in order to ensure consistency with the requirements of IFRS 13, the paragraph under which entities did not include tax cash flows in the measurement of the fair value of a biological asset using the present value technique is deleted;
- the “Illustrative Examples” accompanying IFRS 16 “Leases”, eliminating “Illustrative Example 13” in order to avoid confusion regarding the treatment of lease incentives due to how the incentives were illustrated in that example.

INCOME STATEMENT

Ref. Note	INCOME STATEMENT	2020	Of which related party transactions	2019	Of which related party transactions	Change
1	Revenue from sales and services	152,204,994	151,973,876	152,318,354	152,207,467	(113,359)
2	Other revenue and income	12,589,299	8,457,567	30,915,657	9,318,616	(18,326,358)
	Net revenues	164,794,294	160,431,443	183,234,011	161,526,082	(18,439,717)
3	Personnel costs	61,556,837	0	60,295,960	0	1,260,877
4	Costs of materials and overheads	142,199,229	50,313,262	132,978,683	59,810,030	9,220,546
	Operating costs	203,756,066	50,313,262	193,274,643	59,810,030	10,481,423
	EBITDA	(38,961,772)	110,118,181	(10,040,633)	101,716,052	(28,921,140)
5	Net write-downs (write-backs) of trade receivables	(299,976)	0	(2,368,489)	0	2,068,513
6	Depreciation, amortisation and provisions	23,583,937	0	22,467,993	0	1,115,945
	Operating profit/(loss)	(62,245,733)	110,118,181	(30,140,137)	101,716,052	(32,105,596)
7	Financial income	99,268,436	98,623,155	140,801,939	139,096,589	(41,533,503)
8	Financial costs	(66,107,846)	(3,614,502)	(72,312,419)	(58,396)	6,204,574
9	Income/(costs) from equity investments	204,179,429	204,179,429	181,633,668	181,633,668	22,545,762
	Profit/(loss) before tax	175,094,287	409,306,263	219,983,051	422,387,913	(44,888,764)
10	Income taxes	(2,666,595)	(96,560,113)	11,495,039	(73,944,831)	(14,161,634)
	Net result of continuing operations	177,760,882	505,866,376	208,488,012	496,332,744	(30,727,130)

Amounts in €

STATEMENT OF COMPREHENSIVE INCOME

€ thousand	2020	2019	Change
Net income for the period	177,761	208,488	(30,727)
Reserve for exchange differences	5,740	(5,299)	11,040
Tax reserve for exchange differences	(1,378)	1,272	(2,650)
Gains/losses from exchange rate difference	4,363	(4,028)	8,390
Effective portion of gains/(losses) on hedging instruments ("cash flow hedges")	(4,191)	4,975	(9,165)
Tax effect of other gains/(losses) on hedging instruments ("cash flow hedges")	1,006	(1,194)	2,200
Profit/loss from the effective portion on hedging instruments net of tax effect	(3,185)	3,781	(6,965)
Actuarial gains/(losses) on employee benefits recognised in equity	2,335	(1,812)	4,147
Tax effect on the other actuarial profit/(loss) on staff benefit plans	(690)	(756)	66
Actuarial profit/(loss) on defined benefit pension plans net of tax effect	1,644	(2,568)	4,213
Total components of other comprehensive income, net of tax effect	2,822	(2,815)	5,637
Total comprehensive income/loss	180,583	205,673	(25,090)

All components are reclassifiable in the Income Statement.

STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	2020	Of which related party transactions	2019	Of which related party transactions	Change
11	Tangible fixed assets	102,010,291	0	98,885,234	0	3,125,058
12	Real estate investments	2,372,330	0	2,430,688	0	(58,358)
13	Intangible fixed assets	40,235,472	0	24,283,493	0	15,951,979
14	Right of use	17,626,323	0	15,745,805	0	1,880,519
15	Investments in subsidiaries and affiliate companies	1,839,964,043	0	1,813,914,461	0	26,049,583
16	Other equity investments	2,350,061	0	2,352,061	0	(2,000)
17	Deferred tax assets	17,898,220	0	18,636,433	0	(738,213)
18	Financial assets	238,441,593	197,480,304	226,670,645	226,545,145	11,770,948
	NON-CURRENT ASSETS	2,260,898,334	197,480,304	2,202,918,820	226,545,145	57,979,515
19.a	Trade receivables	136,551,598	135,886,284	98,605,450	97,895,826	37,946,148
19.b	Other current assets	56,457,645	32,220,901	40,577,200	10,128,220	15,880,446
19.c	Current tax assets	0	0	2,624,397	0	(2,624,397)
19.d	Current financial assets	3,214,003,570	2,984,036,079	2,686,541,697	2,539,759,149	527,461,873
19.e	Cash and cash equivalents	418,505,229	0	688,144,677	0	(269,639,448)
19	CURRENT ASSETS	3,825,518,042	3,152,143,264	3,516,493,420	2,647,783,195	309,024,622
	TOTAL ASSETS	6,086,416,376	3,349,623,569	5,719,412,239	2,874,328,340	367,004,137

Amounts in €

Ref. Note	LIABILITIES	31/12/2020	Of which related party transactions	31/12/2019	Of which related party transactions	Change
	Shareholders' equity					
20.a	Share capital	1,098,898,884	0	1,098,898,884	0	0
20.b	Legal reserve	129,760,832	0	119,336,432	0	10,424,401
20.c	Other reserves	77,979,641	0	75,157,426	0	2,822,215
	Retained earnings/(losses)	159,206,999	0	126,930,755	0	32,276,244
	Profit (loss) for the year	177,760,882	0	208,488,012	0	(30,727,130)
20	Total Equity	1,643,607,238	0	1,628,811,508	0	14,795,730
21	Employee severance indemnity and other defined-benefit plans	21,500,228	0	23,322,523	0	(1,822,294)
22	Provision for risks and charges	16,202,936	0	15,881,547	0	321,389
23	Borrowings and financial liabilities	3,710,654,961	0	3,170,894,850	0	539,760,111
	NON-CURRENT LIABILITIES	3,748,358,126	0	3,210,098,920	0	538,259,205
24.a	Financial payables	429,492,050	255,328,218	662,536,178	164,465,312	(233,044,129)
24.b	Payables to suppliers	224,036,408	106,952,791	182,192,468	927,345	41,843,940
24.c	Tax payables	13,969,410	0	813,983	0	13,155,427
24.d	Other current liabilities	26,953,145	3,272,632	34,959,182	11,469,122	(8,006,037)
24	CURRENT LIABILITIES	694,451,013	365,553,641	880,501,811	176,861,779	(186,050,798)
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,086,416,376	365,553,641	5,719,412,239	176,861,779	367,004,137

Amounts in €

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 or losses	Other miscellaneous reserves	Profit (loss) 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
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
Income Statement profit	-	-	-	-	-	-	-	-	208,488	208,488
Other comprehensive income (loss)	-	-	-	(4,028)	3,781	(2,568)	-	-	-	(2,815)
Total comprehensive income (loss)	-	-	-	(4,028)	3,781	(2,568)	-	-	208,488	205,673
Allocation of result for 2018	-	7,389	-	-	-	-	-	140,387	(147,776)	-
Distribution of dividends	-	-	-	-	-	-	-	(147,656)	-	(147,656)
Balance 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

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2020

€ thousand	Share capital	Legal reserve	Demerged capital gains reserve	Reserve for exchange differences	Valuation reserve for financial instruments	Reserve for actuarial gains or losses	Other miscellaneous reserves	Profit (loss) accumulated	Profit (loss) for the year	Total Shareholders' equity
Balance 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
Balance as at 1 January 2020	1,098,899	119,336	102,567	691	(16,877)	(11,602)	379	126,931	208,488	1,628,812
Income Statement profit	-	-	-	-	-	-	-	-	177,761	177,761
Other comprehensive income (loss)	-	-	-	4,363	(3,185)	1,644	-	-	-	2,822
Total comprehensive income (loss)	-	-	-	4,363	(3,185)	1,644	-	-	177,761	180,583
Allocation of result for 2019	-	10,424	-	-	-	-	-	198,064	(208,488)	-
Distribution of dividends	-	-	-	-	-	-	-	(165,717)	-	(165,717)
Balance as at 31 December 2020	1,098,899	129,761	102,567	5,053	(20,062)	(9,958)	379	159,207	177,761	1,643,607

CASH FLOW STATEMENT

Ref. Note	31/12/2020	Related parties	31/12/2019	Related parties	Change
Cash flow from operating activities					
	Profit before tax		219,983		(44,889)
6	Depreciation/amortisation		15,155		2,302
5	Write-ups/write-downs		(178,885)		178,587
22	Change in provisions for risks		474		(152)
21	Net change in the provision for employee benefits		(3,091)		(1,225)
7-8	Net financial interest		(73,607)		(163,735)
	Income taxes paid		(92,937)		17,694
	Financial flows generated by operating activities before changes	0	(112,909)	0	(11,418)
20	Increase/decrease in receivables included in current assets	60,083	(12,923)	(9,618)	(24,723)
24.b	Increase/decrease in payables included in the working capital	(97,829)	3,752	(74,118)	43,203
	Change in working capital	(37,746)	(9,171)	(83,736)	18,480
	Change in other assets/liabilities during the period	0	58,807	4,069	(20,998)
	TOTAL CASH FLOW FROM OPERATING ACTIVITIES	(37,746)	(63,273)	(79,667)	(13,936)
Cash flow from investment activities					
11-12	Purchase/sale of tangible fixed assets		(8,087)		(868)
13	Purchase/sale of intangible fixed assets		(16,362)		(6,761)
15-16	Equity investments		(14,008)		(5,724)
	Collections/payments deriving from other financial investments	415,212	(596,096)	(464,443)	52,919
	Collected dividends	204,181	183,122	183,122	21,060
	Interest income collected	0	140,747	(9,220)	(37,466)
	TOTAL CASH FLOW FROM INVESTMENT ACTIVITIES	619,394	(310,685)	(290,541)	23,161
Cash flow from financing activities					
23	Repayment of mortgages and long-term loans		(290,000)		(172,775)
23	Provision of mortgages/other debts and medium to long term		500,000		99,900
24.a	Decrease/increase in other financial debts	(90,863)	18,257	102,884	90,743
	Interest expense paid		(70,911)	(2,277)	950
	Dividends paid	(81,071)	(73,795)	(73,795)	(7,276)
	TOTAL CASH FLOW FROM FINANCING ACTIVITIES	(171,934)	83,551	26,812	11,543
	Cash flow for the period	447,460	(290,407)	(343,396)	20,768
	Net opening balance of cash and cash equivalents	688,145	978,552		(290,407)
	Cash availability from acquisition	0	0		0
	Net closing balance of cash and cash equivalents	418,505	688,145		(269,639)

Amounts in €

NOTES TO THE INCOME STATEMENT

REVENUES

1. Revenue from sales and services – € 152,205 thousand

Revenues from sales and services are as follows:

€ thousand	2020	2019	Change
Revenue from customer services	33,897	40,751	(6,854)
of which Roma Capitale Public Lighting service	33,666	40,631	(6,965)
of which other revenues	231	120	111
Revenues from intragroup services	118,308	111,568	6,740
of which service contracts	101,873	107,971	(6,098)
of which other services	16,435	3,596	12,838
Revenue from sales and services	152,205	152,318	(113)

The reduction in revenues from customer services of € 6,854 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. The reduction in revenues can be traced, beyond this phenomenon, to the decrease in the efficiency fee generated by continued progress in installations, as well as the decrease in new projects executed. Extraordinary maintenance and modernisation and safety activities agreed with Roma Capitale were carried out.

Revenues from intragroup services recorded an overall increase of € 6,740 thousand. This change derives from the combined effect of the reduction in fees for service activities provided to Group Companies due to a change in the contract and in the scope of services rendered (- € 6,098 thousand), compensated

for by an increase in re-invoicing and administrative, financial, legal and technical services provided outside of the service contract (+ € 12,838 thousand). Please see the subsequent section on *Relations with Roma Capitale* for more information on the Public Lighting contract.

2. Other proceeds – € 12,589 thousand

The decrease of 18,326 thousand compared to 31 December 2019 is mainly due to the recognition of out-of-period income of € 16,200 thousand in 2019 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. Lower revenues for seconded personnel at Group Companies contributed to the decrease, partially offset by higher reimbursements for damages, penalties and similar. Below is the composition.

€ thousand	2020	2019	Change
Non-recurring gains	2,420	20,597	(18,177)
Other revenues	1,702	1,739	(36)
Refunds for damages, penalties, collateral	215	87	128
Regional grants	13	0	13
Seconded personnel	4,645	4,888	(243)
Real estate income	847	791	56
Recharged cost for company officers	2,748	2,815	(67)
Other revenue and income	12,589	30,916	(18,326)

Note that the figures for 31 December 2019 were reclassified to better represent the information.

COSTS

3. Personnel costs – € 61,557 thousand

€ thousand	2020	2019	Change
Personnel costs including capitalised costs	66,549	65,664	885
Staff employed in projects	(3,535)	(3,306)	(229)
Costs capitalised for personnel	(1,458)	(2,062)	605
Personnel costs	61,557	60,296	1,261

The change in personnel costs, including capitalised costs of € 885 thousand derives from the average outstanding amounts, as also highlighted in the table below, offset in part by lower costs for redundancy, mobility and early retirement incentives.

The cost of personnel is netted, as well as capitalised costs, also € 3,535 thousand (+ € 229 thousand compared to 31 December

2019) 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.

	Average number of employees			End-of-period composition		
	31/12/2020	31/12/2019	Change	31/12/2020	31/12/2019	Change
Senior executives	51	49	2	56	49	7
Middle managers	169	164	5	168	167	1
Clerical staff	458	429	29	456	429	27
Blue-collar workers	22	23	-1	20	23	-3
Total	700	665	35	700	668	32

4. Costs of materials and overheads – € 142,199 thousand

Compared to 31 December 2019, total external costs increased by

€ 9,221 thousand. The following is the composition and changes in external costs by nature.

€ thousand	2020	2019	Change
Materials	2,657	1,071	1,587
Services and contract work	128,813	121,935	6,878
Cost of leased assets	3,126	3,938	(812)
Other operating costs	7,603	6,035	1,568
Costs of materials and overheads	142,199	132,979	9,221

€ thousand	2020	2019	Change
Technical and Administrative Services (including consulting and collaborations)	33,133	30,054	3,079
Contract work	7,423	4,644	2,780
Other services	7,060	5,949	1,111
Disposal and transport of sludge, slag, ash and waste	46	89	(44)
Personnel services	4,240	3,916	324
Insurance costs	750	651	99
Electricity, water and gas consumption	15,396	18,324	(2,928)
<i>of which electricity consumption Roma Capitale Public Lighting service</i>	12,988	15,540	(2,552)
Intragroup services and otherwise	25,203	30,046	(4,843)
<i>of which Public Lighting, Roma Capitale</i>	25,038	29,824	(4,786)
Telephone and data transmission costs	831	951	(120)
Postal expenses	915	1,141	(225)
Maintenance fees	13,831	9,456	4,375
Cleaning, transport and portage costs	4,089	2,854	1,236
Advertising and sponsorship costs	7,033	6,021	1,012
Corporate bodies	906	842	64
Bank charges	1,178	1,019	159
Travel and accommodation expenses	112	544	(432)
Seconded personnel	6,580	5,347	1,233
Typographical expenses	88	88	0
Costs for services	128,813	121,935	6,878

€ thousand	2020	2019	Change
Rent charges	692	37	655
Other rentals and fees (use of third party assets)	2,433	3,900	(1,467)
Cost of leased assets	3,126	3,938	(812)

€ thousand	2020	2019	Change
Taxes and duties	1,893	1,909	(16)
Damages and outlays for legal disputes	381	169	212
Contributions paid and membership fees	2,336	1,892	443
General expenses	1,486	1,874	(388)
Contingent liabilities	1,508	191	1,317
Other operating costs	7,603	6,035	1,568

Relative to the € 9,221 thousand increase in external costs, the following contributed to the result:

- greater costs for technical and administrative consulting for € 3,079 thousand, including various projects relative to the industrial, water and photovoltaic segments;
- greater external costs paid on the account of Group companies, covered by corresponding portions of larger re-invoicing directed at subsidiaries;
- a decrease in costs for software and hardware maintenance fees (+ € 4,375 thousand) relating to the management of the IT platform in common with other Group companies;
- the € 2,928 thousand reduction in electricity consumption, of which € 2,552 thousand relative to the Roma Capitale Public Lighting service; this latter reduction originated from energy

savings due to the installation of LED lights and is reflected in the decrease in the rate fees relative to Roma Capitale;

- a € 4,786 thousand reduction in fees to areti for services relative to Public Lighting service management due to the reduction in new installations and completion of the LED Plan;
- greater costs for personnel seconded to other Group companies for € 1,233 thousand.

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	185	251	131	567

Please note that the above fees refer to assignments for the year 2020 entrusted up to 31 December 2020.

of the provision for doubtful accounts relative to the subsidiary Crea as the amount was in excess. The amount released was € 328 thousand.

5. Net write-downs (write-backs) of trade receivables – - € 300 thousand

The balance of the account is mainly represented by the release

6. Depreciation, amortisation and provisions – € 23,584 thousand

€ thousand	2020	2019	Change
Amortisation and depreciation	17,457	15,155	2,302
Provision for risks and charges	6,127	7,313	(1,187)
Total	23,584	22,468	1,116

Amortisation and depreciation totalled € 17,457 thousand and refer for € 6,905 thousand to intangible assets, € 5,803 thousand to tangible assets and € 4,749 thousand to depreciation generated by the application of IFRS 16.

Allocations to the provision for risks amount to € 6,127 thousand. The following are their composition by nature and their effects:

€ thousand	2020	2019	Change
Legal	1,509	1,256	253
Contributory risks	6	32	(26)
Total provisions for risks	1,516	1,289	227
Early retirements and redundancies	4,806	6,036	(1,230)
Total provisions	4,806	6,036	(1,230)
Release of provisions	(195)	(12)	(183)
Total	6,127	7,313	(1,187)

With respect to the previous year, an overall decrease was seen in the provisioning, due to lower allocations associated with early retirements and redundancies.

For further details, see the information provided in the section *Update on major disputes and litigation*.

7. Financial income – € 99,268 thousand

€ thousand	2020	2019	Change
Income from intragroup relations	98,206	139,097	(40,890)
Bank interest income	27	152	(125)
Interest on other receivables and short-term loans	606	1,027	(422)
Financial income from discounting to present value	430	526	(96)
Financial income	99,268	140,802	(41,534)

The decrease in financial income of € 41,534 thousand is attributable for € 40,890 thousand to income from intercompany transactions mainly due to the decrease in interest on the revolving credit line for €

39,596 thousand, essentially due to the decrease in interest rates.

8. Financial costs – € 66,108 thousand

€ thousand	2020	2019	Change
Costs (income) on Interest Rate Swaps	4,974	5,191	(218)
Interest on bonds	55,577	64,448	(8,871)
Interest on medium/long-term borrowings	1,204	693	510
Interest on short-term debt	5	0	5
Default interest and interest on deferred payments	40	75	(35)
Interest cost net of actuarial gains and losses	160	334	(174)
Interest on payments by instalment	0	447	(447)
IFRS 16 financial charges	533	522	11
Other financial charges	(1)	58	(59)
Foreign exchange gains (losses)	3,618	544	3,074
Financial costs	66,108	72,313	(6,205)

The € 6,205 thousand reduction in financial expenses derives from lower interest on bond loans (+ € 8,871 thousand), partially offset by greater exchange losses relative to the measurement of Acea International and Aguazul Bogotà at the exchange rate. The change in interest on bond loans includes the effect of the loss of interest accrued on the bond loan repaid in February 2020, partially offset by interest on the new issue of February 2020 and that of May 2019. With reference to the average cost of Acea's debt, there was a

decrease compared to the previous year, having risen from 1.90% in 2019 to 1.47% in 2020.

9. Income/expenses from equity investments – € 204,181 thousand

Income from equity investments amounted to € 204,181 thousand, an increase of € 21,060 thousand (previously € 183,122 thousand). It is composed as summarised in the following table.

€ thousand	2020	2019	Change
Acea Ato 2	53,270	64,190	(10,920)
Areti	110,137	59,928	50,209
Acea Elabiori	19,618	19,049	569
Acea Ambiente	2,547	23,540	(20,993)
Acque Blue Fiorentina	5,229	5,229	0
Acea Produzione	1,257	3,158	(1,900)
Aquaser	2,620	2,844	(225)
Acea8cento	220	378	(158)
Acea International	1,077	887	190
Intesa aretina	452	638	(186)
Geal SpA	384	269	115
Acque Blue Arno Basso	1,791	0	1,791
Ingegnerie Toscane	219	433	(214)
Aguazul Bogotà SA	0	2,579	(2,579)
Acea Energia	5,361	0	5,361
Total	204,181	183,122	21,060

Taxes – - € 2,667 thousand

Total taxes amount to - € 2,667 thousand, against € 11,495 thousand at 31 December 2019. 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 € 94,218 thousand (€ 84,685 thousand as at 31 December 2019) 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.

This effect is summarised in the table below and shows the reconciliation between the theoretical and actual rates.

	31/12/2020	%	31/12/2019	%
Pre-tax result of continuing operations	175,094		219,983	
Expected tax charge at 24% on profit before tax	42,023	24.0%	52,796	24.0%
Permanent differences *	(44,689)	(25.52%)	(43,973)	(20.0%)
IRES for the period **	(2,667)	(1.52%)	9,204	4.2%
IRAP for the period **	2,291	0.0%	2,291	1.0%
Taxes on the operating income of continuing operations	(2,667)	(1.52%)	11,495	5.2%

* They mainly include the taxed portion of dividends.

** Including deferred tax.

Deferred taxes

Net deferred tax assets decreased taxes by € 1,934 thousand (€ 513 thousand at 31 December 2019) and consisted of the algebraic sum of provisions (€ 5,090 thousand) mainly on the provision for risks, the allowance for doubtful receivables and provisions for defined benefit plans and utilisations (€ 3,156 thousand). Deferred tax liabilities increase by € 1,719 thousand and relate only to provisions.

Charges and income from tax consolidation

These amount to € 96,560 thousand (€ 73,945 thousand as at 31 December 2019) and represent the positive balance between the tax charges that the Parent Company has towards tax consolidation companies against the transfer of tax losses (€ 559 thousand) and the tax income recorded as a counterpart of the taxable income transferred to the consolidated company (€ 97,119 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.

NOTES TO THE BALANCE SHEET – ASSETS

11. Tangible fixed assets – € 102,010 thousand

This item shows an increase of € 3,125 thousand compared to the value of 31 December 2019.

The change mainly refers to the net effect between investments, totalling € 8,955 thousand, and amortisation which amounts to € 5,745 thousand.

Investments during the period include the Telecontrol devices of

the Public Lighting network in Rome, created by Acea at the request of Roma Capitale in fulfilment of the service contract.

The other investments 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	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets under construction	Total tangible fixed assets
Historical cost 31/12/2019	102,517	28,444	13,819	56,088	1,762	202,629
Investments/acquisitions	597	4,587	4	2,728	1,038	8,955
Disinvestments	(11)	(10)	0	(64)	0	(85)
Other changes	0	0	0	1,161	(1,161)	0
Historical cost 31/12/2019	103,102	33,022	13,823	59,913	1,639	211,499
Accumulated depreciation at 31/12/2019	(24,180)	(16,172)	(12,846)	(50,546)	0	(103,744)
Depreciation/amortisation and impairment charges	(488)	(2,811)	(240)	(2,206)	0	(5,745)
Disinvestments	0	0	0	0	0	0
Other changes	0	0	0	0	0	0
Accumulated depreciation at 31/12/2020	(24,668)	(18,983)	(13,086)	(52,752)		(109,488)
Net value 31/12/2020	78,435	14,039	737	7,161	1,639	102,010

12. Real estate investments – € 2,372 thousand

These amount to € 2,372 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 – € 40,235

Investments mainly concerned the purchase and development of software to support the development of systems for managing IT platforms, corporate security and administrative management.

Below is a summary of the changes occurred during the period:

€ thousand	Patents and intellectual property rights	Concessions and trademarks	Fixed assets under construction	Total Intangible fixed assets
Net value 31/12/2019	16,076	9	8,198	24,283
Investments/acquisitions	9,853	0	13,270	23,123
Disinvestments	(228)	0	(38)	(266)
Other changes	4,619	0	(4,619)	0
Depreciation/amortisation	(6,896)	(9)	0	(6,905)
Net value 31/12/2020	23,425	0	16,810	40,235

14. Right of use – € 17,626 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, after application of the new international standard IFRS 16. At 31 December 2020 the net book value of these assets was € 17,626 thousand.

€ thousand	31/12/2020	31/12/2019	Change
Land and buildings	16,138	14,416	1,723
Cars and motor vehicles	1,426	1,330	96
Machinery and equipment	0	0	0
Other	61	0	61
Total	17,626	15,746	1,881

The table below shows the changes during the period:

€ thousand	Land and buildings	Cars and vehicles	Other	Total
Opening balance	14,416	1,330	0	15,746
New contracts	5,396	992	0	6,388
Remeasurement	241	0	0	241
Reclassifications	0	(128)	128	0
Depreciation/amortisation	(3,915)	(768)	(67)	(4,749)
Total	16,138	1,426	61	17,626

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 – € 1,839,964 thousand

These recorded an increase of € 26,050 thousand and is as follows:

€ thousand	31/12/2020	31/12/2019	Change
Investments in subsidiaries	1,818,678	1,792,439	26,239
Investments in associated companies	21,286	21,475	(189)
Total shares held	1,839,964	1,813,914	26,050

Investments in subsidiaries

Changes for 2020 are summarised below.

Shares held in subsidiaries	Historical cost	Reclassifications and other changes	Write-ups/write-downs	Disposals	Net value
Values at 31 December 2019	3,188,007	(376,507)	(57,619)	(961,441)	1,792,440
2019 changes:					
- changes in share capital	8,436	0	0	0	8,436
- acquisitions/formations	19,732	0	0	0	19,732
- disposals/distributions	0	0	0	0	0
- reclassifications and other changes	0	1,618	0	0	1,618
- write-downs/write-ups	0	0	(3,548)	0	(3,548)
Total changes in 2020	28,169	1,618	(3,548)	0	26,239
Values at 31 December 2020	3,216,176	(374,890)	(61,167)	(961,441)	1,818,678

The changes occurred involve:

- € 28,169 thousand are related to:
 1. € 8,436 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 2019 on the loan for the same amount for € 5,359 thousand and the remission of € 3,077 thousand for the receivable for interest on arrears accrued at 31 December 2019;
 2. € 19,732 thousand refers to the acquisition of 51% of the share capital of Alto Sangro Distribuzione Gas S.r.l.;
- € 1,618 thousand refers to the value of the difference between the non-interest bearing loan in favour of the subsidiary Umbriadue Servizi Idrici provided and its value as of the disbursement date;
- € 3,548 thousand refers to the adjustment made to the exchange rate for the equity investment in Acea International S.A.

For purposes of verifying the recoverable value of investments, the impairment test was carried out, pursuant to IAS 36, substantially on all its direct and indirect subsidiaries.

Below is the methodology used, as well as comments on the results of the sensitivity and impairment tests carried out. 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 2020 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 (WACC) is used. The estimate of the recoverable value of the equity investments is hence expressed in terms of value in use.

The application of the financial method for determining the recoverable value and the subsequent comparison with the respective accounting values, therefore entailed, for each equity investment subject to impairment testing, estimating the post tax WACC, the value of operating cash flows taken from the Business Plan approved by

the Board of Directors (VO) and the value of the Terminal Value (TV) and, in particular, the growth rate used to project flows beyond the plan horizon, the value of the net financial position (NFP) and any surplus assets/liabilities (SA).

The main assumptions which determined cash flows and test results were the following:

- 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.

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 plants;
- for the Environment and Overseas Segments, respectively, considering the residual value corresponding to the net invested capital at the end of the plants' useful life and of the concession;

- 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;
- for the Commercial and Trading Segment normalised cash flows were estimated with a steady state hypothesis without real growth.

Finally, the flows determined as above were discounted using the post-tax WACC determined using an unconditional approach or using the regulatory WACC for regulated business. Given the impacts of Covid-19 and the consequent economic policies adopted by central banks to limit the impacts of the pandemic, which created a significant reduction in interest rates, especially during the second half of 2020, it was decided to lengthen the observation period so as to "neutralise" this reduction. Consequently, the WACCs are substantially in line with those used in the impairment test the previous year.

Finally, the following table shows summary figures for 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				
Areti	value in use	5.9%	Regulatory Asset Base (RAB)	Until 2025
Acea Produzione	value in use	5.2%	NIC/perpetuity at the end of the plants' useful life	Useful life of plants/end of concession
Ecogena	value in use	5.2%	NIC at the end of the plants' useful life	Plants' useful life
Water/Gas Segment	value in use	5.2%/6.3%	Regulatory Asset Base (RAB)	End of the concession
Commercial and Trading Segment	value in use	5.8%	Perpetuity without real growth	Until 2025
Overseas Segment	value in use	6.4%/11.0%	NIC at the end of the concession	End of the concession
Environment Segment	value in use	5.2%	NIC at the end of the plants' useful life	Plants' useful life

To support the analysis deriving from the test, sensitivity analysis was done to highlight the impact of recoverable values from equity investments in the case of variations in specific assumptions, so as to identify the main break-even assumptions. Based on this analysis, hypotheses regarding changes in discount rates, growth rates or a reduction in profitability were found to be unrealistic and/or immaterial, with the exception of the equity investments in Acque Industriali S.r.l., Acea Ato 5SpA, Acea Liquidation and Litigation S.r.l. for which a 0.5% increase in the discount rate would lead to a writedown on the equity investment.

With reference to Acea Ato 5, note that on 10 March 2021, the Conference of Mayors for Optimal Territorial Area Authority no. 5 – Southern Lazio (hereafter, OTAA 5), approved the Tariff Structure for the regulatory period 2020-2023 with Resolution 1/2021. This is in contrast with the tariff adjustment request, prepared by the Operator pursuant to art. 5, para. 5.5 of Resolution ARERA 580/2019/R/ldr, containing the regulatory framework for the 2020-2023 third regulatory period and showing significant differences for the 2020-2023 period, with reference to operating costs and the tariff multiplier.

With reference to operating costs note that the lack of recognition by OTAA 5 of the operating costs suffered by the Operator, documented in the requests presented during the preparatory work for the tariff structure, definitively formalised by the Operator in the tariff update request sent on 15 December 2020, was not adequately justified and technically represented in the Technical Re-

port issued by OTAA 5 and accompanying its tariff proposal. Hence at present the Operator is not aware of the reasons these costs were excluded from the tariff recognition approved by OTAA 5 on 10 March 2021.

Relative to the tariff multiplier note that the Tariff Structure approved by OTAA 5 established a tariff multiplier with the following problems:

- it does not indicate specific invoicing schedules to recover previous adjustments equal to € 101 million;
- the amount of adjustments inserted by OTAA 5 in the Economic Financial Plan is not included in the formula which determines the tariff multiplier for the relevant years (2023-2024);
- the reduction in operating costs which occurred in years for which Acea Ato 5 already suffered the relative charge (costs in the Financial Statements 2018-2019, basis for tariff determination 2020-2023), leads to a financial loss of the same amount, as it is necessary to apply a tariff change, for the respective years, less than that applied as of 1 January 2020.

As a result of the approval of the 2020-2023 tariff provisions, the Directors of Acea Ato 5 acknowledged a financial discrepancy significant enough to raise serious doubts about the subsidiary as a going concern.

In this regard and in light of the forthcoming approval of the subsidiary's draft annual Financial Statements, the Company Directors launched a review of the previously approved 2021 Budget and the related 2020-2024 Plan in order to implement all the appropriate measures to re-establish the financial stability needed to

confirm the assumption of the business as a going concern. The objectives of these actions include, among other things:

1. compliance with payment schedules – in terms of the previous debt position, already at the end of 2020 the company had signed repayment plans for previous debts, agreeing to payments over timeframes exceeding 12 months with the counterparties (both third parties and infragroup);
2. intensifying actions intended to reduce collection times and to improve the collection percentage for receivables recognised in the Financial Statements;
3. pursuing new short term credit lines to support working capital and, therefore, day to day operations;
4. adjusting investments so as to guarantee both continuity of service and financial sustainability for the commitments that the company may take on;
5. reducing operating costs proportionally to lower revenues coming from the Economic Financial Plan approved by the OTAA 5 Conference of Mayors;
6. possible activation of initiatives which can be implemented in areas deemed expedient to obtain an adjustment of tariffs.

Additionally, given the various variables which affect the Acea Ato

5 economic financial plan, sensitivity analysis was done based on whether or not the efficiency objectives are achieved, as established in the subsidiary's new business plan, and on whether or not the economic financial rebalancing request is granted (this is based on the tariff proposal submitted by the company, but not recognised by OTAA 5). Below are the results of the sensitivity analysis, noting that the "base case" for the impairment test coincides with the upper left section of the table, which foresees 100% achievement of cost savings objectives and no benefit deriving from the actions the Company intends to undertake to obtain a tariff adjustment.

This scenario was prudentially used as the base case for the impairment test considering only the elements of improvement which are under the company's control (cost savings) and not those which ultimately depend upon decisions and factors external to the company (tariff adjustment). Note that this structure does not in any reflect an assessment of the likelihood of a tariff adjustment being recognised, which is actually deemed probable in consideration of the incompatibility of the financial imbalance caused to the Operator by the new tariff structure with respect to the current legal and regulatory framework, but is only functional to the execution of the impairment test in compliance with that established under IAS 36:

€ thousand	Achievement of target cost efficiency (100% = € 6.0 million)								
	100%	90%	80%	70%	67%	60%	50%	40%	
0%	753	(2,828)	(6,409)	(9,989)	(11,183)	(13,570)	(17,151)	(20,732)	
20%	1,882	(1,699)	(5,279)	(8,860)	(10,054)	(12,441)	(16,002)	(19,603)	
Target on tariff revision (100% = € 55.0 million)	40%	5,522	1,942	(1,639)	(5,220)	(6,414)	(8,801)	(12,382)	(15,962)
	61%	11,942	8,361	4,780	1,199	6	(2,832)	(5,962)	(9,543)
	80%	20,335	16,754	13,174	9,593	8,399	6,012	2,431	(1,150)
	100%	31,508	27,927	24,346	20,765	19,572	17,185	13,604	10,023

Shares held in affiliate companies

These amounted to € 21,286 thousand and changed in 2020 due to the decrease in share capital and the adjustment to the ex-

change rate of Aguazul Bogotà (these were € 21,475 thousand at 31 December 2019).

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 2019	94,570	13,600	(80,834)	(5,861)	21,475
2019 changes:					
- changes in share capital	0	0	0	0	0
- acquisitions/formations	0	0	0	0	0
- disposals/distributions	(165)	0	0	0	(165)
- reclassifications and other changes	0	0	0	0	0
- write-downs/write-ups	0	0	(24)	0	(24)
Total changes in 2020	(165)	0	(24)	0	(189)
Values at 31 December 2020	94,405	13,600	(80,858)	(5,861)	21,286

16. Other equity investments – € 2,350 thousand

"Other equity investments" refer to investments in equity securities that do not constitute control, association or joint control.

During the year, the equity investment in Green Capital Alliance Società Benefit S.r.l. was eliminated, equal to € 2 thousand, after removal of the company from the Companies Register on 1 June 2020.

17. Deferred tax assets – € 17,898 thousand

These decreased by € 738 thousand compared to 31 December 2019.

The following table shows the changes and the balance as at 31 December 2020, 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	31/12/2019	IRES/IRAP uses	Changes in SE	IRES/IRAP advances	31/12/2020
Prepaid taxes					
Remuneration of members of the BoD	14	(3)		1	11
Provision for risks and charges	2,930	(1,753)		1,912	3,089
Write-down of investments	0	0		0	0
Provision for doubtful accounts	11,410	(10)	0	2,358	13,758
Depreciation and amortisation of tangible and intangible assets	256	(595)	0	563	225
Defined benefit plans/defined contribution	5,536	(682)	(748)	256	4,362
Others	5,720	(112)	1,006	0	6,613
Total	25,867	(3,156)	258	5,090	28,058
Deferred taxes					
Deferred taxes on dividends	128	(110)		0	18
Depreciation and amortisation of tangible and intangible assets	67	0	0	39	106
Defined benefit plans/defined contribution	237	0	(57)	0	179
Others	6,799	0	1,378	1,680	9,857
Total	7,230	(110)	1,320	1,719	10,160
Net total	18,636	(3,046)	(1,062)	3,371	17,898

18. Non-current financial assets – € 238,442 thousand

This increased by € 11,771 thousand with respect to 31 December

2019 (previously € 226,671 thousand), and can be broken down as follows:

€ thousand	31/12/2020	31/12/2019	Change
Financial receivables from Roma Capitale	11,756	15,227	(3,471)
Financial receivables from subsidiaries	211,610	192,645	18,965
Receivables from others	15,075	18,798	(3,723)
Total	238,442	226,671	11,771

The item **Financial receivables 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 2020, 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 € 18,965 thousand compared to 31 December 2020. During 2020, the following new financing was disbursed:

- € 10,000 thousand to Umbriadue, interest bearing;
- € 6,110 thousand to Umbriadue, non-interest bearing and recognised at the current value of € 4,492 thousand.

Additionally, an agreement was signed in December to amend the Shareholders' loan in favour of TWS, which extended the maturity of the residual amount to 31 December 2023, which amounts to € 4,000 thousand after the € 3,600 thousand payment made in September.

These receivables are considered entirely recoverable.

€ thousand	31/12/2020	31/12/2019	Change
Acea Ato 5	187,742	187,742	0
Umbriadue Servizi Idrici	14,965	0	14,965
Acea Molise	4,870	4,870	0
Technologies for water service	4,000	0	4,000
Ecomed	33	33	0
Total financial receivables from subsidiaries	211,610	192,645	18,965

The item **Receivables from others**, amounting to € 15,075 thousand, is composed of € 14,727 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. Current assets – € 3,825,518 thousand

These recorded an increase of € 309,025 thousand (€ 3,516,493

thousand as at 31 December 2019) and are broken down as follows.

19.a – Trade Receivables – € 136,552 thousand

These saw an increase of € 37,946 thousand compared to 31 December 2019 (then € 98,605 thousand). The comparative values as at 31 December 2019 were the subject of reclassifications in respect of published data for the purpose of better understanding the changes occurred.

Below is their composition:

€ thousand	31/12/2020	31/12/2019	Change
Receivables from customers	726	710	17
Receivables from the Parent Company – Roma Capitale	22	47	(25)
Receivables from subsidiaries and associates	135,803	97,849	37,954
Total trade receivables	136,552	98,605	37,946

Trade receivables

These amounted to € 726 thousand net of the allowance for doubtful receivables amounting to € 2,124 thousand and increased by € 17 thousand.

Receivables included under this item refer to positions accrued in respect of private and public entities for services rendered.

Provision for doubtful debts

These total € 2,124 thousand and did not change compared to 31 December 2019.

The estimate of the amounts considered non-collectable is estimated based on the provisions of IFRS 9, or, through the applica-

tion 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").

Relations with 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	31/12/2020	31/12/2019	Change
Receivables for services invoiced	5	41	(35)
Receivables for services to be invoiced	17	6	11
Total trade receivables	22	47	(25)
Financial receivables for Public Lighting services billed	129,336	138,798	(9,462)
Provision for doubtful debts	(30,152)	(30,152)	0
Financial receivables for Public Lighting services to be billed	65,033	39,195	25,837
Provision for doubtful debts	(21,960)	(14,960)	(7,000)
M/L term financial receivables for Public Lighting services	11,756	15,227	(3,471)
Total financial receivables for Public Lighting	154,012	148,107	5,905
Total receivables	154,034	148,154	5,880
Dividend payables	(128,544)	(77,114)	(51,430)
Other payables	(1,043)	(139)	(904)
Total payables	(129,587)	(77,252)	(52,334)
Total net balance receivables payables	24,447	70,901	(46,455)

As regards **relations with Roma Capitale**, the net balance at 31 December 2020 was a positive € 24,447 thousand, compared to the previous balance of € 70,901 thousand at 31 December 2019. The main reason for the decrease in the net credit/debit balance is the recognition of dividends accrued in financial year 2019 for € 84,717 thousand.

The change in receivables and payables is due to the accrual of the period and the effects of offsets/revenues, summarised below.

- February 2020: receivables for € 10,463 thousand relating to the Public Lighting service and for 2018 and 2016-2018 pro-rata amounts were offset by the portion of dividends for 2018;
- September 2020: receivables for € 22,824 thousand relating to the Public Lighting service for fees and for 2019 pro-rata amounts were offset by a second portion of dividends for 2018;
- November 2020: Acea collected other receivables for € 273 thousand.

Financial receivables increased by € 5,905 thousand compared to the previous period, to be attributed to the combined effect of: 1) offsetting of financial receivables in February and September (as noted above), and 2) accrual of receivables related to the Public Lighting service agreement, to the modernisation of security, to extraordinary maintenance and to works related to the Public Lighting service.

Recall that 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 (SIMU) 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 completely rejected by the Group.

In order to arrive at a complete Resolution of the differences during 2019 a specific Joint Technical Committee was set up with the Acea Group.

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 2020 at total of € 10,463 thousand of receivables referred to the aforementioned Report were closed.

During the year receivables grew by € 5,880 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.

We can inform you finally that, as regards the Public Lighting service, following the opinion given by the AGCM (Antitrust Authority) in Bulletin no. 49 of 14 December 2020, Roma Capitale began checking the conditions of congruity and economic convenience of the performance terms pursuant to the service contract between the Administration and Acea SpA (and for it areti) compared with the terms pursuant to the CONSIP – Luce 3 Convention and, in addition, on the basis of the positions expressed by the AGCM in the said opinion, expressed perplexities on the legitimacy of the award to Acea SpA itself. On 8 February 2021, with a note ref. DG 1585/2021, Roma Capitale communicated the results of the said checks, affirming definitively “the congruity and convenience of the economic terms currently in being with respect to the

qualitative and economic parameters of the CONSIP – Luce 3 Convention” and confirming “the correctness of the prices applied for the Public Lighting service”, overcoming definitively all reserves on the congruity of the prices charged in the context of the contractual relationship in being between Roma Capitale and Acea SpA. In the same note, the Administration therefore ordered the restart of the procedures for payment of Acea’s ascertained receivables in relation to the service contract. We can note that the said communication regards the correctness of the prices charged, without affecting the Administration’s intention, already manifested, to terminate the relationship with Acea to call for tenders and thus make a new award for the Public Lighting service.

Receivables from subsidiaries and associates

Receivables from subsidiaries and associates total € 135,803 thousand and increased by € 37,954 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 2019 were the subject of reclassifications in respect of published data for the purpose of better understanding the changes.

Below is their composition:

€ thousand	31/12/2020	31/12/2019	Change
Acea Ato 5	43,077	33,391	9,687
Areti Spa	30,672	18,367	12,305
Acea Ato 2	17,346	10,597	6,749
Acea Energia SpA	9,183	6,692	2,491
Gesesa	7,001	6,265	736
Acea Molise S.r.l.	5,350	4,666	684
Acquedotto Del Fiora SpA	3,251	2,402	849
Publiacqua	3,068	1,627	1,441
Acea Ambiente S.r.l.	2,313	960	1,353
Acea Elabori SpA	2,123	1,036	1,087
Umbra Acque SpA	2,118	1,736	382
Acque SpA	1,726	1,557	169
Gori	1,323	1,330	(7)
Acque Industriali	1,263	791	472
Marco Polo	1,236	1,236	0
Acea Produzione SpA	897	832	65
Sarnese-Vesuvianoo	823	778	45
Umbriadue Servizi Idrici S.c.a.r.l.	686	968	(282)
Acea Innovation S.r.l.	503	457	46
Aquaser	275	1	274
Ingegnerie Toscane S.r.l.	231	86	145
Coema	184	162	22
Ecogena	145	3	142
Bioecologia S.r.l.	136	262	(126)
Acea Perù	135	104	31
Crea SpA	118	5	113
Acea Solar	102	0	102
Acque Blu Arno Basso SpA	74	62	12
Acea Dominicana	72	596	(524)
Acque Blu Fiorentine	69	27	42
Ombrone	41	57	(16)
Other	261	797	(536)
Total	135,803	97,849	37,954

19.b – Other current assets – € 56,458 thousand

These recorded an increase of € 15,880 thousand and are made up as follows. As of this year, this item includes tax consolidation receiv-

ables previously classified among tax receivables. 2019 amounts were therefore adjusted for better representation.

€ thousand	31/12/2020	31/12/2019	Change
Receivables due to the transferee Area Laurentina	6,446	6,446	0
Accrued income and prepayments	5,769	4,888	881
Other receivables	204	701	(497)
Receivables from national insurance institutions	305	295	10
Receivables due to severance pay for individual transfers	1,931	1,986	(55)
Advances to suppliers and deposits with third parties	261	0	261
VAT receivables	8,993	17,720	(8,727)
Other tax receivables	374	399	(25)
Tax consolidation receivables due from subsidiaries	32,175	8,142	24,033
Total	56,458	40,577	15,880

Receivables from national insurance institutions include receivables generated by the return of Marco Polo to the facility management sector for amounts due to employees. Accrued income and prepaid expenses mainly include IT infrastructure maintenance and IT services, insurance contracts and insurance premiums.

19.c – Current tax assets – € 0 thousand

These decreased by € 2,624 thousand with respect to the end of the previous year. In 2019, the balance consisted of the IRES receivables for payments on account.

€ thousand	31/12/2020	31/12/2019	Change
IRES receivables for payments on account	0	2,624	(2,624)
Total receivables from the tax authorities	0	2,624	(2,624)
Total tax receivables	0	2,624	(2,624)

19.d – Current financial assets – € 3,214,004 thousand

These recorded an increase of € 527,462 thousand and can be broken down as follows.

€ thousand	31/12/2020	31/12/2019	Change
Receivables from parent companies – Roma Capitale	142,256	132,881	9,375
Receivables from subsidiaries and associates	2,841,780	2,406,879	434,902
Receivables from others	229,967	146,783	83,185
Total	3,214,004	2,686,542	527,462

Receivables from parent companies – Roma Capitale

These amount to a total of € 142,256 thousand and refer to receivables due from Roma Capitale relating to the Public Lighting service contract as anticipated in the section of this document titled *Relations with the Parent Company Roma Capitale*.

Receivables from subsidiaries and associates

These amount to € 2,841,780 thousand (€ 2,406,879 thousand at 31 December 2019) and are composed as follows:

€ thousand	31/12/2020	31/12/2019	Change
Receivables from cash pooling relationships	2,725,999	2,247,600	478,399
Accrued current financial assets on loans and cash pooling relationships	97,062	135,498	(38,436)
Receivables from subsidiaries for loans	14,363	18,297	(3,934)
Other receivables from subsidiaries	1,486	1,486	(0)
Receivables for commissions on guarantees given	2,750	3,998	(1,248)
Receivables from associates	121	0	121
Total	2,841,780	2,406,879	434,902

The change with respect to the end of the previous year is mainly due to the increase in balances in the current accounts with Group companies which adhered to a revolving type loan, covering working capital and investment requirements and due to the reduction in associ-

ated accrued income, mainly due to the reduction in interest rates. Receivables from subsidiaries for loans; this decrease is attributable to reclassification of the long-term loan to TWS, which was extended, with the maturity postponed to 31 January 2023.

Receivables from others

These total € 229,967, an increase of € 83,185 thousand with respect to 31 December 2019, due to the combined effect of the

collection of the AGCM receivable of € 16,263 thousand (or the fine including interest paid) and the increase in short-term deposits, which went from € 125,000 thousand to € 225,000 thousand.

€ thousand	31/12/2020	31/12/2019	Change
Receivables for managing the Public Lighting service	4,412	5,040	(628)
Receivables from the Competition Authority	0	16,263	(16,263)
Receivables on short-term deposits	225,000	125,000	100,000
Financial accrued income	282	206	76
Receivables from SEIN from Liquidation of Acea Ato 5 Servizi	274	274	0
Total	229,967	146,783	83,185

19.e – Cash and cash equivalents – € 418,505 thousand

These recorded a decrease of € 269,639 thousand (€ 688,145 as at 31 December 2019) 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

20. Shareholders' equity – € 1,643,607 thousand

€ thousand	31/12/2020	31/12/2019	Change
Share capital	1,098,899	1,098,899	0
Legal reserve	129,761	119,336	10,424
Reserve for own shares	0	0	0
Other reserves	77,980	75,157	2,822
Profits carried forward	159,207	126,931	32276244
profit (loss) for the year	177,761	208,488	(30,727)
Total	1,643,607	1,628,812	14,796

Shareholders' equity increased by € 14,796 thousand compared to 31 December 2019. 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 2019 equal to € 0.78 per share, as well as the changes in other reserves.

The composition and changes per item are shown below:

20.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.

20.b – Legal reserve – € 129,761 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 2020 there was an increase of € 10,424 thousand compared to the previous year, due to the allocation of profit achieved in 2019.

20.c – Other reserves – € 77,980 thousand

The composition of the Item and the changes for the period are provided below:

€ thousand	31/12/2020	31/12/2019	Change
Extraordinary reserve	180	180	0
Demerged capital gains reserve	102,567	102,567	0
Reserve for exchange differences	5,053	691	4,363
Valuation reserve for financial instruments	(20,062)	(16,877)	(3,185)
Reserve for actuarial gains and losses	(9,958)	(11,602)	1,644
Other miscellaneous reserves	198	198	0
Total	77,980	75,157	2,822

The reserve for differences in exchange records a decrease of € 4,363 thousand and represents the effect of the valuation at the exchange rate on 31 December 2020 of the private placement in Yen stipulated in 2010.

The cash flow hedge reserve is negative and stands at € 20,062

thousand. This reserve includes € 3,334 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.

€ thousand

31 December 2020

	Amount	Possibility of use	Distributable 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	129,761	A, B	129,761		
Extraordinary reserve	180	A, B, C	180		
Demerged capital gains reserve	102,567	A, B, C	102,567		
Retained earnings	159,207	A, B, C	159,207	10,522	
Profit reserves from O.C.I.					

(follows)

€ thousand

31 December 2020

	Amount	Possibility of use	Distributable portion	Summary of use made in the previous three years	
				Loss coverage	Other reasons
Valuation reserve for financial instruments	(20,062)		(20,062)		
Reserve for exchange differences	5,053		5,053		
Reserve for actuarial gains and losses	(9,958)		(9,958)		
Other reserves					
Greater cost paid, intragroup acquisitions	(5,652)		(5,652)		
IAS reserve	(719)		(719)		
Reserve for own shares	3,853	Guarantee of treasury shares	3,853		
Total	370,801		370,801		
Non-distributable share			102,277		
Residual distributable portion			268,524		

Key: A = capital increase – B = to cover losses – C = distribution to Shareholders

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 2020. 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. Employee severance indemnity and other defined benefit plans – € 21,500 thousand

It decreased by € 1,822 thousand and reflects severance indemnities and other benefits to be paid subsequently to the performance 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	31/12/2020	31/12/2019	Change
Benefits due at the time of termination of employment			
- Employee severance indemnity	6,737	6,714	23
- Extra months	1,470	1,500	(30)
- Long-Term Incentive Plans (LTIP)	1,600	1,945	(345)
Total	9,807	10,159	(352)
Post-employment benefits			
- Tariff subsidies	9,542	13,163	(3,622)
- "Isopensione" (early retirement)	2,151	0	2,151
Total	11,693	13,163	(1,471)
Total benefits	21,500	23,323	(1,822)

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 2020	December 2019
Discount rate	0.3%	0.8%
Revenue growth rate (average)	1.6%	1.6%
Long-term inflation	1.0%	1.0%

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.

Plan type	Discount rate	
	+0.5%	-0.5%
€ thousand		
Employee severance indemnities (TFR)	(320)	341
Tariff subsidies	(370)	396
Extra months	(72)	77
LTIP	361	340

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)	(1)
Tariff subsidies	(1,010)
Extra months	60

Sensitivity analyses were not performed for other variables such as, for example, inflation rate.

22. Provision for risks and charges – € 16,203 thousand

The table below details the composition by nature and the changes compared to the end of the previous year:

€ thousand	31/12/2019	Uses	Provisions	Release for excess provisions	Reclassifications/ other changes	31/12/2020
Legal	2,274	(643)	1,509	(50)	(41)	3,049
Taxes	245	(71)	0	(145)	0	29
Investees	5,727	0	0	0	0	5,727
Contributory risks	728	0	6	0	0	734
Other risks and charges	872	0	0	0	41	913
Total provision for risks	9,846	(714)	1,516	(195)	0	10,452
Early retirements and redundancies	6,036	(4,466)	4,806	0	(625)	5,751
Total provisions for expenses	6,036	(4,466)	4,806	0	(625)	5,751
Total Provision for risks and charges	15,882	(5,180)	6,322	(195)	(625)	16,203

The main changes concerned:

- the provision for risks related to legal disputes was used for € 643 thousand for unfavourable judgements, and further provisions for the year of € 1,509 thousand were appropriated;
- the provision set aside for redundancy and mobility plans used for € 4,466 thousand as the relevant procedures have been completed. Additionally, € 4,806 thousand was set aside for the same plan, including future "Isopensione" retirement plans;

- the provision for tax litigation risks was used for € 71 thousand and released for € 145 thousand.

For further details, see the information provided in the section *Update on major disputes and litigation*.

23. Non-current borrowings and financial liabilities – € 3,710,655 thousand

The breakdown is as follows:

€ thousand	31/12/2020	31/12/2019	Change
Bonds	3,253,444	2,754,298	499,146
Medium/long-term borrowings	444,117	405,151	38,966
IFRS 16 financial payables	13,094	11,446	1,648
Total	3,710,655	3,170,895	539,760

Medium and long-term bonds

On 29 January 2020, Acea SpA completed the placement of a non-convertible bond 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 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.

Bonds amounted to € 3,253,444 thousand (€ 2,754,298 thousand at 31 December 2019) and refer to the following:

- **€ 597,669** 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 € 15,770 thousand;
- **€ 494,820** 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 € 5,003 thousand;
- € 158,441 thousand relating to the Private Placement which, net of the fair value of the hedge, a negative € 22,749 thousand, amounted to **€ 181,190** thousand. This fair value is allocated to a specific equity reserve. A suitable exchange reserve includes the exchange rate difference, a negative € 6,649 thousand, of the hedged instrument calculated on 31 December 2020. The exchange rate at the end of 2020 stood at € 126.18 against € 121.77 as at 31 December 2019. Interest accrued during the period amounted to € 4,028 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;
- **€ 299,737** 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 € 81 thousand;
- **€ 690,597** 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 years under the EMTN programme. Interest accrued during the period amounted to € 10,516 thousand;
- **€ 494,098** 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 years under the EMTN programme. Interest accrued during the period amounted to € 8,764 thousand;
- **€ 495,333** thousand (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 29 January 2020, with a rate of 0.50% for the duration of 9 years under the EMTN programme. Interest accrued during the period amounted to € 2,259 thousand.

The following is a summary including the short-term portion:

€ thousand	Gross payables (*)	FV hedging instrument	Interest accrued (**)	Total
Bonds:				
Issued in 2014	596,774	0	7,336	604,110
Private Placement issued in 2014	158,423	22,749	655	181,827
Issued in 2016	493,802	0	945	494,747
Issued in 2018	988,442	0	5,955	994,397
Issued in 2019	493,276	0	5,346	498,622
Issued in 2020	494,705	0	1,849	496,554
Total	3,225,422	22,749	22,086	3,270,257

* Including amortised cost.

** Including rates on hedging instruments

Medium/long-term borrowings

These amount to € 444,117 thousand and show a total reduction of € 38,966 thousand and represent the payable for the portion of the instalments not yet repaid at 31 December 2020 and expiring beyond twelve months.

The main mortgages, whose values as at 31 December 2020 are shown below including the short-term portions amount to a total of € 504,359 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 2020 amounted to € 37,494 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 2020 amounts to € 8,649 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 98.93% 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 € 315 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. The residual amount of the loan at 31 December 2020 amounts to € 158,333 thousand;
- 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. The residual amount of the loan at 31 December 2020 amounts to € 199,974 thousand;
- on 8 April 2020 a new € 100,000 thousand credit line was issued by UBI Banca, maturing on 8 April 2022. Repayment is in bullet form, on the final maturity date.

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 2021 of € 60,243 thousand.

Financing

€ thousand	Total residual debt	By 31/12/2021	Due from 31/12/2021 to 31/12/2025	After 31/12/2025
fixed rate	99,908	(65)	99,973	0
floating rate	395,802	51,658	169,150	174,993
floating rate cash flow hedge	8,649	8,649	0	0
Total	504,359	60,243	269,123	174,993

For information on financial instruments and in particular on fair value at the balance sheet date please refer to the paragraph *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, the long-term portion of which amounts to € 13,094 thousand. On the other hand, the short-term portion amounts to € 5,137 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	5,137	9,567	17,626	18,231

24. Current liabilities – € 694,451 thousand

These amounted overall to € 694,451 thousand and decreased overall by € 186,051 thousand. Note that the figures as at 31

December 2019 include reclassifications carried out for better representation and comparison with the previous period.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Financial payables	429,492	662,536	(233,044)	(35.2%)
Trade payables	224,036	182,192	41,844	23.0%
Tax payables	13,969	814	13,155	n.s.
Other current liabilities	26,953	34,959	(8,006)	(22.9%)
Current liabilities	694,451	880,502	(186,051)	(21.1%)

26.a – Financial payables – € 429,492 thousand

These fell by € 233,044 thousand and are composed as follows:

€ thousand	31/12/2020	31/12/2019	Change
Payables for short-term bank credit lines	90,152	0	90,152
Payables for bank loans	60,243	39,998	20,244
Short-term bonds	16,813	453,390	(436,577)
Payables to the Parent Company Municipality of Rome	129,375	77,225	52,150

(follows)

€ thousand	31/12/2020	31/12/2019	Change
Payables to subsidiaries and associates	125,953	85,471	40,482
Payables to third parties	1,819	1,817	2
IFRS 16 financial payables within one year	5,137	4,635	502
Total	429,492	662,536	(233,044)

Payables for short-term bank credit lines refer mainly to three disbursements occurring in 2020, for a total of € 90,000 thousand.

The € 20,244 thousand increase in payables for bank loans refers to the reclassification of the first instalment within the short-term position relative to the repayment plan for the BEI loan obtained on 2 May 2017, for € 200,000 thousand, as part of the Network Efficiency III Project.

The decrease in bonds is attributable for € 437,812 thousand to the full repayment of the bond loan issued by Acea in March 2010, with a duration of 10 years and maturing on 16 March 2020, extinguished on February 2020.

Financial payables relative to Roma Capitale increased by € 52,150 thousand, mainly due to recognition of the payable for share dividends for Acea which accrued in 2019 for € 84,717 thousand and the use of some of the dividends which accrued in 2018 to partially offset receivables (€ 77,114 thousand).

The changes concerning payables to subsidiaries and associates mainly relate to centralised treasury transactions, which increased by € 43,146 thousand due to the greater financial exposure recorded during the year by some Group companies.

The following is a breakdown by type of debt due to investee companies:

€ thousand	31/12/2020	31/12/2019	Change
Payables for cash pooling relationships	125,721	82,574	43,146
Other financial payables	233	2,897	(2,664)
Total	125,953	85,471	40,482

This item includes the short-term portion of IFRS financial payables, equal to € 4,635 thousand.

26.b – Trade payables – € 224,036 thousand

Results are as follows. Note that the figures as at 31 December 2019 include reclassifications carried out for better representation and comparison with the previous period.

€ thousand	31/12/2020	31/12/2019	Change
Payables to suppliers	118,327	107,672	10,655
Payables to the Parent Company	212	28	184
Payables to subsidiaries and associates	105,497	74,492	31,004
Trade payables	224,036	182,192	41,844

Payables to third-party suppliers show an increase of € 10,655 thousand and the balance is shown below:

€ thousand	31/12/2020	31/12/2019	Change
Payables due to invoices received	75,134	60,504	14,630
Payables due to invoices to be received	43,193	47,168	(3,975)
Total	118,327	107,672	10,655

With regard to payables to suppliers for invoices received for € 75,134 thousand, it must be noted that the expired component amounts to € 17,383 thousand, the remaining amount is due within the next twelve months.

Relative to relations with **Subsidiaries and associates**, note a €

31,004 thousand increase, essentially relative to areti for fees relative to the Public Lighting service. Note that the figures as at 31 December 2019 include reclassifications carried out for better representation and comparison with the previous period, as credit notes to be issued were moved to the assets. Details by counterparty are provided in the following table:

€ thousand	31/12/2020	31/12/2019	Change
Acea Ato 2	719	646	73
Acea Ato 5	177	102	75
Acea Energia SpA	9,102	6,564	2,538
Acea Produzione SpA	56	20	36
Areti SpA	94,683	65,751	28,932

(follows)

€ thousand	31/12/2020	31/12/2019	Change
Acea Elabori SpA	85	42	43
Acea Ambiente S.r.l.	212	21	191
Acque SpA	47	47	0
Other	417	1,300	31,004
Total	105,497	74,492	62,892

26.c – Tax payables – € 13,969 thousand

These refer to tax payables due to for IRES and IRAP, totalling € 13,969 thousand, consisting entirely in 2020 of IRES payables for all companies participating in Group tax consolidation. Note that the figures for 31 December 2019 were reclassified to improve comparability of data. Until 2019, this item also included tax consolidation payables to parent companies.

€ thousand	31/12/2020	31/12/2019	Change
Payables to social security institutions	3,502	3,605	(103)
Accrued liabilities and deferred income	238	232	6
Tax consolidation payables to subsidiaries	3,207	11,441	(8,234)
Payables due to personnel	10,365	11,940	(1,575)
Payables to Equitalia	61	61	0
Other payables	9,580	7,680	1,900
Total	26,953	34,959	(8,006)

26.d – Other current liabilities – € 26,953 thousand

These are composed as follows. Note that the figures for 31 December 2019 were reclassified to improve comparability of data. Additionally, tax consolidation payables to parent companies in 2019 were classified among tax payables.

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 which represent just cause for early revocation of the concession and/or termination of the contract by the parties. Of these events, that relative to newly arising requirements linked to the public interest appears relevant, expressly included under that established by article 23-bis of Italian Decree Law 112/2008, abrogated after the referendum of 12 and 13 June 2011, which determines for Acea the right to an indemnity commensurate with the discounted product of a defined percentage of the annual contractual amount and the number of years remaining until the natural 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:

- a. 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;

- b. 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. The amount is to be paid in the amount of 10% in advance and the remaining part on the basis of specific bi-monthly progress certificates, which must 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.

We can inform you finally that, as regards the Public Lighting service, following the opinion given by the AGCM (Antitrust Authority) in Bulletin no. 49 of 14 December 2020, Roma Capitale began checking the conditions of congruity and economic convenience of the performance terms pursuant to the service contract between the Administration and Acea SpA (and for its areti) compared with the terms pursuant to the CONSIP – Luce 3 Convention and, in addition, on the basis of the positions expressed by the AGCM in the said opinion, expressed perplexities on the legitimacy of the award to Acea SpA itself. On 8 February 2021, with a note ref. DG 1585/2021, Roma Capitale communicated the results of the said checks, affirming definitively “the congruity and convenience of the economic terms currently in being with respect to the qualitative and economic parameters of the CONSIP – Luce 3 Convention” and confirming “the correctness of the prices applied for the Public Lighting service”, overcoming definitively all reserves on the congruity of the prices charged in the context of the con-

tractual relationship in being between Roma Capitale and Acea SpA. In the same note, the Administration therefore ordered the restart of the procedures for payment of Acea's ascertained receivables in relation to the service contract. We can note that the said communication regards the correctness of the prices charged, without affecting the Administration's intention, already manifest-

ed, to terminate the relationship with Acea to call for tenders and thus make a new award for the Public Lighting service.

From the point of view of economic relations, instead, the costs and revenues at 31 December 2020 are summarised below with reference to the most significant transactions.

€ thousand	Revenues		Costs	
	2020	2019	2020	2019
Public Lighting service contract	29,447	34,163	0	0
Revenue from real. plants on request	4,218	6,468	0	0
Total	33,666	40,631	0	0

ACEA AND THE ROMA CAPITALE GROUP

Even with companies, special companies or institutions con-

trolled 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	31/12/2020	31/12/2020	31/12/2020	31/12/2020
AMA SpA	995	711	28	0
ATAC SpA	0	26	0	0
Fondazione Cinema Per Roma	100	122	0	0
Fondazione Musica Per Roma	0	48	0	0
Le Assicurazioni Di Roma	0	30	0	0
Total	1,095	937	28	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 were renewed on 1 January 2020. Based on this contract, Acea makes available a medium-term revolving loan, known as the "Intercompany Finance Line", up to a predetermined 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 a daily intercompany balance due by currency, the companies pay interest expense to the Parent Company calculated, for each year, on the basis of a market interest rate, defined as the sum of: cost of funding, the average weighted interest rate paid by the Acea Group on the market the previous year and incremental risk, the risk differential between the Acea Group and individual companies participating in the contracts. For 2020, the interest rate applied falls between a minimum of 2.82% and a maximum of 4.04%, while in 2019, the rate applied fell between a minimum of 4.62% and a maximum of 5.78%.

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.

The new contracts saw revisions made to the following 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.

As of 1 January 2020, and for three years, the new service contracts for 2020-2022 took effect. The methodology used to determine the unit price is the Cost Plus Method, which calls for the identification of a shared base cost, to which is applied a mark-up on internal costs (subject to market benchmarks by a major consulting company) and, subsequently, divided up between the various beneficiaries of the services through allocation keys which are compliant and consistent, in line with what third parties would do. 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 2020 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 2020 financial year, there are no financial transactions with Suez Italia 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

€ thousand	31/12/2020	Related parties	Impact	31/12/2019	Related parties	Impact	Change
Financial assets	223,714	197,480	88.3%	207,998	226,545	108.9%	(29,065)
Trade receivables	136,552	135,886	99.5%	98,605	97,896	99.3%	37,990
Other current assets	56,458	32,221	57.1%	40,577	10,128	25.0%	22,093
Current tax assets	32,175	0	n.s.	10,766	0	n.s.	0
Current financial assets	3,214,004	2,984,036	92.8%	2,686,542	2,539,759	94.5%	444,277
Financial payables	(429,492)	(255,328)	59.4%	(662,536)	(164,465)	24.8%	(90,863)
Payables to suppliers	(224,036)	(106,953)	47.7%	(182,192)	(927)	0.5%	(106,025)
Tax payables	(17,177)	0	n.s.	(12,255)	0	n.s.	0
Other current liabilities	(26,953)	(3,273)	12.1%	(34,959)	(11,469)	32.8%	8,196

IMPACT ON THE ECONOMIC RESULTS

€ thousand	31/12/2020	Related parties	Impact	31/12/2019	Related parties	Impact	Change
Revenue from sales and services	152,205	151,974	99.8%	152,318	152,207	99.9%	(234)
Other revenue and income	12,589	8,458	67.2%	30,916	9,319	30.1%	(861)
Costs of materials and overheads	16,062	50,313	313.2%	13,553	59,810	441.3%	(9,497)
Financial income	99,268	98,623	99.3%	140,802	139,097	98.8%	(40,473)
Financial costs	(66,108)	(3,615)	5.5%	(72,312)	(58)	0.1%	(3,556)
Income/(costs) from equity investments	204,179	204,179	100.0%	181,634	181,634	100.0%	22,546

IMPACT ON THE CASH FLOW STATEMENT

Cash flow statement	31/12/2020	Related parties	% Impact	31/12/2019	Related parties	% Impact	Change
Cash flow from operating activities	(77,209)	(37,746)	48.9%	(63,273)	(79,667)	125.9%	7,573
Cash flow of asset investment/ disinvestment	(287,524)	619,394	-215.4%	(310,685)	(290,541)	93.5%	(545,514)
Cash flow from financing activities	95,093	447,460	470.5%	83,551	26,812	32.1%	(204,314)

LIST OF TRANSACTIONS WITH RELATED PARTIES

During 2020, there were no significant transactions with related parties.

UPDATE ON MAJOR DISPUTES AND LITIGATION

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. The decision has not yet been issued.

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. Specification of the conclusions was most recently postponed to 25 June 2021.

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. Quite unexpectedly, following the service of the order, on 12 March 2020 the seized third party filed an appeal against the enforcement, requesting a declaration of nullity of the order for the allocation of the seized sums.

In an order dated 24 March 2020 and without a hearing, the Enforcing Judge ordered the suspension of the enforceability of the assignment order and set a hearing on 24 February 2021 to decide on whether to confirm, amend or revoke the measure. The judgement has not yet been issued.

ACEA SPA – TRIFOGLIO S.R.L.

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. 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, 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 last postponed to 17 June 2021.

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 debeatur, 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 judgement is still pending with the Rome Court of Appeals, regarding pay differences accrued between 2010 and 2014, proposed by the same workers. The case was suspended and during the most recent hearing, 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 debeatur 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, later postponed to December 2020.

Postponed to March 2021, in order to allow for negotiations with the aim of a possible settlement. Further, in December 2020, a settlement was reached with one of the six counterparties.

Most recently, two of the workers filed a quantification judgement relative to pay differences between 2014 and 2019. Challenges to the injunction orders issued in favour of the two workers are currently in course, with the hearing of appearance set for 14 June 2021.

ACEA SPA AND ARETI SPA – MP 31 S.R.L. (FORMERLY ARMOZIA MP S.R.L.)

This is a challenge to the Injunction Order issued by the Court of Rome, docket no. 58515/14, issued against areti for the amount of € 226,621.34, requested by Armosia MP by way of lease payments for the months of April, May and June 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 was initially set for 16 April 2020 and then postponed to 16 June 2022.

ACEA SPA AND ACEA ATO 2 SPA – CO.LA.RI

With a writ of summons served on 23 June 2017, the Consortium

Co.La.Ri. and E. Giovi S.r.l. – respectively the manager of the Malagrotta landfill (prov. Rome) and the executor – summoned Acea and Acea Ato 2 to obtain payment for the portion of the tariff for accessing the landfill, to be allocated to cover the thirty-year costs to manage the same, as established in Italian Legislative Decree 36/2003, alleged to be due for the depositing of waste during the contractual period from 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 conclusion, most recently postponed to 22 March 2021, previously set for 27 October 2020.

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 million.

Gala also requested that the behaviour of areti and other defendant companies, including Acea 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.

With decree of 13 June 2019 the Investigating Judge ordered an assessment by a court-appointed expert. The draft of the expert witness was submitted on 17 March 2020, with a deadline for comments on 13 July 2020. The hearing to examine the expert's report is set for 24 September 2020.

In view of the hearing for examination of the technical expert's findings, Gala filed a request for an appeal to the European Union Court of Justice. After this hearing, on 1 October 2020, the Judge granted a deadline for the filing of briefs and requests for clarifications and responses, reserving all other decisions.

With an order dated 16 November 2020, the Judge then determined the case should not be sent to the Court of Justice and, deeming the case ripe for a decision, confirmed the already set hearing for conclusions on 12 May 2021.

ACEA SPA – MUNICIPALITY OF BOTRICELLO

In 1995, the Municipality of Botricello transferred management of its Integrated Water Service to a temporary grouping of businesses, which later established itself as a consortium, known as Hydreco S.c.a.r.l.. In 2005, the Municipality sued, in the Court of Catanzaro, the company Hydreco S.c.a.r.l. and its component companies, including Sigesa SpA (which transferred its rights to Acea SpA), to obtain reimbursement of the fees due for administration for the period from 1995-2002, quantified in the amount of € 946,091.63, plus damages, interest and revaluation.

The companies disputed the Municipality's claim and filed a counter-claim for non adjustment of tariffs and loss of earnings due to the early revocation of the service. During the case an expert was called upon, who recognised a balance due to the Municipality of around € 230,000.00. Nonetheless, the Court, with judgement 1555 of 29 October 2015, ordered the companies to jointly pay € 946,091.63, plus interest and revaluation of the payable accrued, rejecting the counter-claims. The losing parties filed separate appeals and, with an ordinance of 27 March 2018, the Catanzaro Court of Appeals suspended execution of the appealed judgement, based on the validity of the arguments made in the appeal document. However, with judgement 677 of 6 June 2020, the appeals were rejected.

Acea filed an appeal with the Court of Cassation. The date for the hearing has not yet been set.

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 9 based on the categories defined by IAS 39.

€ thousand	FVTPL	FVTOCI	Amortised cost	Balance sheet value	Explanatory notes
Non-current assets	2,350	0	223,714	226,064	
Equity investments	2,350	0	0	2,350	16
Financial assets	0	0	223,714	223,714	18
Current assets	0	0	3,369,069	3,369,069	
Trade receivables			136,552	136,552	20
Current financial assets	0	0	3,214,004	3,214,004	20
Other current assets	0	0	18,514	18,514	20
Non-current liabilities	0	181,190	3,516,371	3,697,561	
Bonds	0	181,190	3,072,254	3,253,444	25
Payables to banks	0	0	444,117	444,117	25
Current liabilities	0	8,649	664,886	673,535	
Short-term bonds	0	0	16,813	16,813	25
Payables to banks	0	8,649	141,747	150,395	25
Other financial payables	0	0	262,284	262,284	25
Trade payables	0	0	224,036	224,036	25
Other liabilities	0	0	20,006	20,006	25

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 Di-

rectors, 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 2020 the Parent Company had unused committed credit lines of € 500.0 million, uncommitted lines of € 558.0 million of which € 140.0 million used, as well as unused and available medium/long term loan lines of € 250.0 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 dynam-

ic 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 (81.1%) as at 31 December 2020, 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 € 0.3 million (negative for € 10 million at 31 December 2019);
- negative for € 22.7 million (negative for € 17.9 million 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.

€ thousand	Amortised cost (A)	FV RISK LESS (B)	Delta (A) - (B)	FV RISK (C)	Delta (A) - (C)
Bonds	3,270,257	3,637,566	(367,309)	3,550,897	(280,640)
fixed rate	99,908	100,914	(1,006)	100,562	(654)
floating rate	395,802	403,416	(7,614)	395,010	792
floating rate cash flow hedge	8,649	8,706	(57)	8,375	274
Total	3,774,616	4,150,603	(375,986)	4,054,844	(280,228)

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)
(1,5)%	(418.7)
(1,0)%	(286.6)
(0,5)%	(159.3)
(0,3)%	(97.4)
n.s.	0.0
0.25%	23.1
0.50%	81.7
1.00%	195.9
1.50%	305.9

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

ENDORSEMENTS AND SURETIES ISSUED AND RECEIVED

These have a negative net balance of € 28,617 thousand, as the endorsements and sureties issued amounted to € 22,352 thousand while those received amounted to € 50,969 thousand.

These recorded an increase of € 8,714 thousand compared to the end of the previous year. The change is mainly due to the issue of bank guarantees by Intesa San Paolo for two bank sureties issued in favour of SEDAPAL for management of the pumping stations in the city of Lima and for maintenance of the water and sewerage network in the Nord zone in the amount of € 6,694 thousand and for bank sureties issued in favour of INPS as part of the “*Isopen-sione*” programme, in the amount of € 2,536 thousand.

During the year they underwent an overall increase of € 20,069 thousand.

The main changes concerned:

- the increase in guarantees in favour of various companies in compliance with the obligations established in electricity transport contracts on the account of Acea Energia, for a total of € 35,983 thousand;
- € 7,485 thousand for back to back guarantees issued to bank institutions after the acquisition of Trinovolt, Marche Solar and Eurline 3;
- the decrease in the guarantee benefiting CDDPP (- € 22,093 thousand) offset by the increase in the guarantee to Terna (+ € 164 thousand) for transport services.

LETTERS OF PATRONAGE ISSUED AND RECEIVED

The balance is positive for € 623,795 thousand, consisting of letters of patronage issued for € 623,998 thousand and letters of patronage received for € 203 thousand.

THIRD-PARTY ASSETS UNDER CONCESSION

These amount to € 86,077 thousand and have not changed since 31 December 2019 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 2020, equal to € 177,760,881.74, as follows:

- € 8,888,044.09, equal to 5% of profit, to the legal reserve;
- to distribute a total dividend of € 170,038,325.60 to Shareholders, corresponding to a unit dividend of € 0.80 per share equal to the entire distributable profit for the financial year

ended 31 December 2020 of € 168,872,837.65 and retained earnings of € 1,165,487.95.

The total dividend (coupon no. 22) of € 170,038,325.60, equal to € 0.80 per share, will be paid starting from 23 June 2021 with coupon detachment on 21 June 2021 and record date 22 June 2021. 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 2020**

**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 2020

€ thousand	31/12/2020	Of which related party transactions	31/12/2019	Of which related party transactions	Change
Non-current financial assets/(liabilities)	348		126		222
Parent company, subsidiaries and associates current financial assets/(liabilities)	223,366	223,366	207,872	207,872	15,494
Non-current borrowings and financial liabilities	(3,710,655)		(3,170,895)		(539,760)
Net medium/long-term debt	(3,486,941)	223,366	(2,962,897)	207,872	(524,044)
Cash and cash equivalents and securities	418,505		688,145		(269,639)
Short-term debt	(167,208)		(493,388)		326,180
Current financial assets/(liabilities)	223,011		140,330		82,681
Parent Company and associates non-current financial assets/(liabilities)	2,728,708	2,728,708	2,377,063	2,377,063	351,645
Short-term financial position	3,203,017	2,728,708	2,712,150	2,377,063	490,867
Total net financial position	(283,924)	2,952,074	(250,747)	2,584,935	(33,177)

ANNEX 2 – CHANGES IN HOLDINGS AS AT 31 DECEMBER 2020

CHANGES IN THE PERIOD

€ thousand	31/12/2019	Acquisitions	Disposals	Reclassifications	Increases/ decreases	Write-downs/ losses/ revaluations	31/12/2020
Subsidiaries	683,861	0	0	0	0	0	683,861
Areti SpA	585,442	0	0	0	0	0	585,442
Acea Ato 2 SpA	120	0	0	0	(120)	0	0
Acea8cento SpA	7,209	0	0	0	0	0	7,209
Acea Elabori SpA	277,044	0	0	0	120	0	277,164
Acea Energia SpA	16,793	0	0	0	8,436	0	25,229
Acea Ato 5 SpA	43	0	0	0	0	0	43
Consorcio Acea -Acea Domenicana	14,663	0	0	0	0	0	14,663
Acque Blu Arno Basso SpA	19,383	0	0	0	0	0	19,383
Ombrone SpA	43,911	0	0	0	0	0	43,911
Acque Blu Fiorentine SpA	32,573	0	0	0	0	0	32,573
Acea Ambiente S.r.l.	5,417	0	0	0	0	0	5,417
Aquaser S.r.l.	2,874	0	0	0	0	0	2,874
Crea Gestioni S.r.l.	60	0	0	0	0	0	60
Parco della Mistica	21,410	0	0	0	0	0	21,410
Sarnese-Vesuvianoo S.r.l.	8,341	0	0	0	0	0	8,341
Acea Liquidation and Litigation S.r.l.	43,441	0	0	0	0	0	43,441
Acea Produzione SpA	50	0	0	0	0	0	50
Acea Energy Management S.r.l.	21,337	0	0	0	(3,548)	0	17,789
Acea International SA	0	0	0	0	0	0	0
Crea SpA (in liquidation)	0	0	0	0	0	0	0
Hydreco S.c.a.r.l. (in liquidation)	2,881	0	0	0	1,618	0	4,499
Umbriadue Servizi Idrici S.c.a.r.l.	1,222	0	0	0	0	0	1,222
Acque Industriali S.r.l.	64	0	0	0	0	0	64
TWS SpA	4,290	0	0	0	0	0	4,290
Pescara Distribuzione Gas	10	0	0	0	0	0	10
Acea Innovation	0	19,732	0	0	0	0	19,732
Alto Sangro Distribuzione Gas S.r.l.	1,792,439	19,732	0	0	6,506	0	1,818,678
Total – subsidiaries	1,792,439	19,732	0	0	6,506	0	1,818,678

CHANGES IN THE PERIOD

€ thousand	31/12/2019	Acquisitions	Disposals	Reclassifications	Increases/ decreases	Write-downs/ losses/ revaluations	31/12/2020
Associates							
Aguazul Bogotà SA	553	0	0	0	(189)	0	364
Ecomed S.r.l.	118	0	0	0	0	0	118
Umbra Acque SpA	6,851	0	0	0	0	0	6,851
Ingegnerie Toscane S.r.l.	58	0	0	0	0	0	58
Intesa Aretina S.c.a.r.l.	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	21,475	0	0	0	(189)	0	21,286

CHANGES IN THE PERIOD

€ thousand	31/12/2019	Acquisitions	Disposals	Reclassifications	Increases/ decreases	Write-downs/ losses/ revaluations	31/12/2020
Other companies							
Polo Tecnologico Industriale Romano S.p.A.	2,350	0	0	0	0	0	2,350
WRC PLC	0	0	0	0	0	0	0
Green Capital Alliance Società Benefit S.r.l.	2	0	0	0	(2)	0	0
Total – other companies	2,352	0	0	0	(2)	0	2,350

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

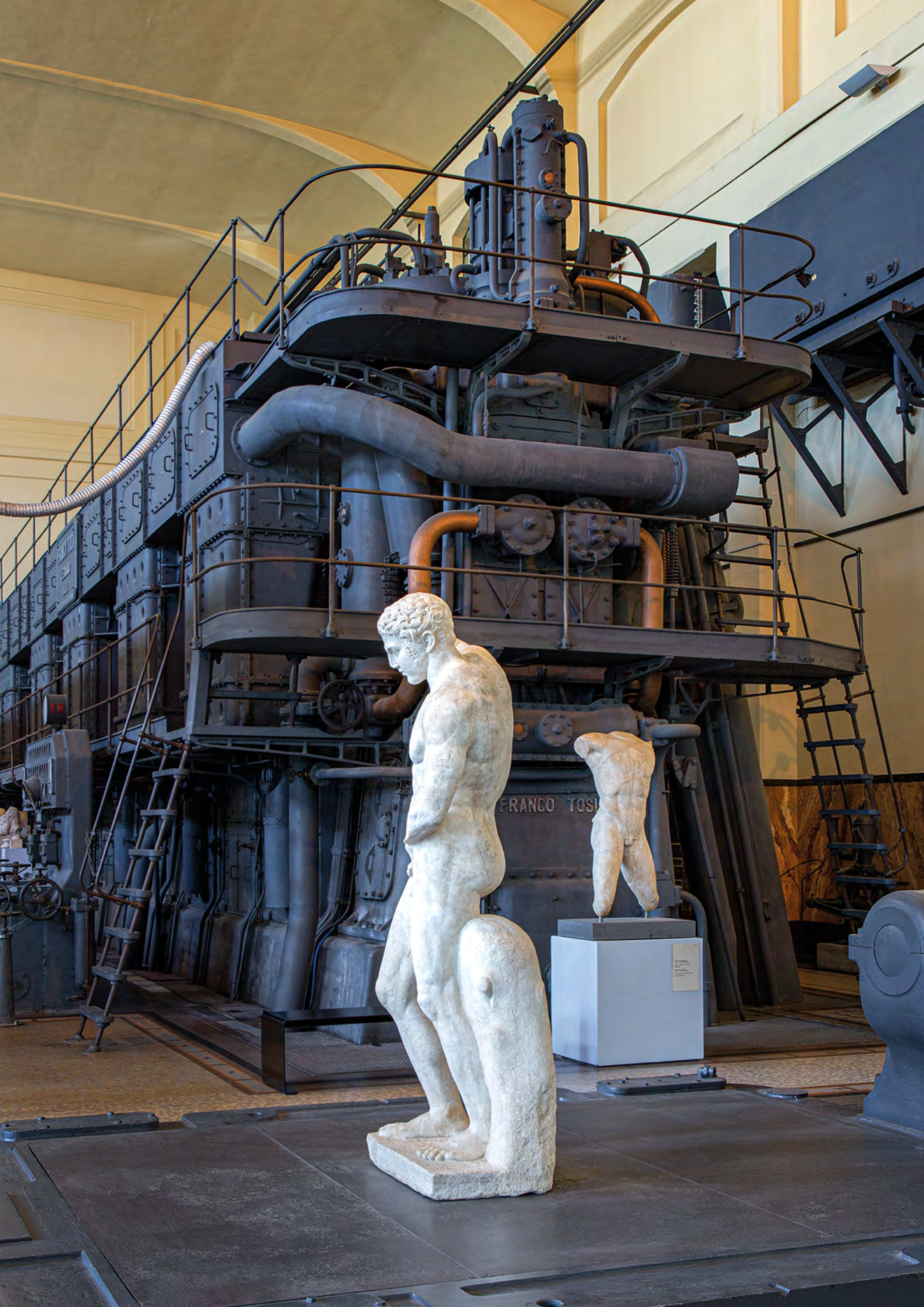
Pursuant to the CONSOB Communication of 28 July 2006, it should be noted that during 2020 Acea SpA has not performed atypical and/or unusual transactions, as defined by the Communication itself.

ANNEX 5 – SEGMENT INFORMATION (IFRS 8)

€ thousand	Public Lighting	Corporate	Total continuing operations	Discontinuing operations	Total
Tangible fixed assets	8,731	102,010	110,741		110,741
Real estate investments	0	2,372	2,372		2,372
Intangible fixed assets	0	57,862	57,862		57,862
Right of use	0	17,626	17,626		17,626
Equity investments in unconsolidated subsidiaries and associates	0	1,839,964	1,839,964		1,839,964
Other equity investments	0	2,350	2,350		2,350
Deferred tax assets	0	17,898	17,898		17,898
Financial assets	26,484	238,442	264,925		250,198
NON-CURRENT ASSETS	35,215	2,278,525	2,313,739		2,313,739
Trade receivables	831	136,552	137,382		137,382
Other current assets	0	56,458	56,458		56,458
Current tax assets	0	0	0		0
Current financial assets	146,668	3,067,336	3,214,004		3,214,004
Cash and cash equivalents	0	418,505	418,505		418,505
CURRENT ASSETS	147,498	3,678,850	3,826,349		3,826,349
Non-current assets held for sale	0	0	0		0
TOTAL ASSETS	182,713	5,957,375	6,140,088		6,140,088

€ thousand	Public Lighting	Corporate	Total continuing operations	Discontinuing operations	Total
Shareholders' equity					
Share capital	0	1,098,899	1,098,899		1,098,899
Legal reserve	0	129,761	129,761		129,761
Other reserves	0	77,980	77,980		77,980
Retained earnings/(losses)	0	159,207	159,207		159,207
Profit (loss) for the year	0	177,761	177,761		177,761
Total Group Shareholders' equity	0	1,643,607	1,643,607		1,643,607
Minority interests	0	0	0		0
Total Shareholders' equity	0	1,643,607	1,643,607		1,643,607
Employee severance indemnity and other defined-benefit plans	0	21,500	21,500		21,500
Provision for risks and charges	0	16,203	16,203		16,203
Borrowings and financial liabilities	0	3,710,655	3,710,655		3,710,655
Other liabilities	0	0	0		0
NON-CURRENT LIABILITIES	0	3,748,358	3,748,358		3,748,358
Financial payables	831	429,492	430,323		430,323
Payables to suppliers	101,823	224,036	325,860		325,860
Tax payables	0	17,177	17,177		17,177
Other current liabilities	0	26,953	26,953		26,953
CURRENT LIABILITIES	102,654	697,658	800,312		800,312
Liabilities directly associated with assets held for sale	0	0	0		0
Total liabilities and Shareholders' equity	102,654	6,089,624	6,192,278		6,192,278

€ thousand	Public Lighting	Corporate	Total continuing operations	Discontinuing operations	Total
Revenue from sales and services	33,666	118,539	152,205		152,205
Other revenue and income	0	12,589	12,589		12,589
Net revenues	33,666	131,128	164,794		164,794
Personnel costs	0	61,557	61,557		61,557
Costs of materials and overheads	38,072	104,127	142,199		142,199
Operating costs	38,072	165,684	203,756		203,756
EBITDA	(4,406)	(34,556)	(38,962)		(38,962)
Net write-downs (write-backs) of trade receivables	0	(300)	(300)		(300)
Depreciation, amortisation and provisions	1,971	21,613	23,584		23,584
Operating profit/(loss)	(6,377)	(55,869)	(62,246)		(62,246)
Financial income	415	98,853	99,268		99,268
Financial costs	1	(66,109)	(66,108)		(66,108)
Income/(costs) from equity investments	0	204,179	204,179		204,179
Profit/(loss) before tax	(5,961)	181,055	175,094		175,094
Income taxes	0	(2,667)	(2,667)		(2,667)
Net result of continuing operations	(5,961)	183,722	177,761		177,761
Net profit/(loss) from discontinued operations					
Net profit/(loss)	(5,961)	183,722	177,761		177,761



FRANCO TOSI

**REPORT OF THE BOARD OF STATUTORY AUDITORS
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 provides information on the activities carried out by the Board of Statutory Auditors of Acea S.p.A. (hereafter, also "Acea" or the "Company") during the financial year which ended on 31 December 2020.

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 Statutory 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 (Chairperson), 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, during the first few months of 2021, put in place a self-assessment process for 2020, which it presented to the Board of Directors at the meeting held on 10 March 2021 so that it could include the relative 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 (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 Chairperson;
- 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 analysis of the qualitative elements inherent to the professionalism required by the assignment, the continued presence of the following knowledge and skills were verified with the questionnaires:

(i) knowledge of company organisation, its internal control and risk management systems, inherent to corporate governance, internal audit processes and the execution of statutory audits; (ii) technical expertise in the 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 continues to require 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.

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 continue to 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. It must also determine that all members of the Board of Statutory Auditors hold the independence requirements envisaged in art. 7 of the Corporate Governance Code approved by the Corporate Governance Committee;
- 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 continues to comply 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 2020, the Board of Statutory Auditors carried out the activities it was responsible for, holding 19 meetings, each lasting an average of approximately 3 hours and 15 minutes.

The Board of Statutory Auditors also attended all the 12 meetings of the Board of Directors, the 11 meetings of the Control and Risks Committee, 11 meetings of the Nominations and Remuneration Committee, 10 meetings of the Executive Committee, 3 meetings of the Related Parties Committee and 9 meetings of the Ethics and Sustainability 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 S.p.A. 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 S.p.A., 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.

4. Transactions of particular significance

The most significant transactions carried out by the Acea Group during 2020 are specified in the documentation relating to the financial statements submitted for your approval.

Initially, the Board of Statutory Auditors holds it useful to provide information about the special situation which arose during 2020 due to the Covid-19 pandemic, a situation which impacted all the decisions, operations and, more generally, the activities of the Company.

The health emergency, which is still ongoing as of the time this document is being prepared, had heavy consequences for the global economy as well as the operations of companies. For this reason Acea implemented a detailed series of measures intended to protect the health and safety of its employees and customers, as well as to provide concrete support for the areas in which the Group works. Some of these actions (in particular, activation of smart working, establishing shifts for employees and promotion of remote work) made it necessary to make use of organisational and IT solutions aimed at supporting continuity in regular company activities, while simultaneously protecting the physical safety of people and the IT security of transactions. Hence, activities and projects were identified which ensure the adoption of prompt and effective actions, in line with Ministerial provisions and guidelines coming from Authorities and relevant entities/institutions. As can easily be imagined, the pandemic with its significant social and economic impacts, both domestic and international (although with significant asymmetry in terms of different sectors), as well as the consequent measures implemented, could not help but influence the exposure of the Company to different types of risks based on its activities. With the goal of monitoring, managing and properly measuring these risks in relation to the extraordinary crisis in progress, Acea implemented a series of actions regarding its internal practices, processes and regulations, strengthening and revising its safeguards and controls. The Board of Statutory Auditors paid special attention to the effectiveness and efficacy of these. In its supervision, the Board took particular care with the numerous documents, guidelines, references and recommendations which were issued by the Regulatory Authorities, without forgetting the recommendations regarding the need to provide up to date information to the market on risks associated with Covid-19 that could impact the Company's economic/equity and financial situation, on any actions it had undertaken or planned to mitigate these risks and indicating any potential significant effects with regards to outlook predictions.

In particular, the Auditors focussed their efforts on (i) measuring any expected losses on credit exposures to be included in forecasts of future macroeconomic scenarios; (ii) informing the market on effects suffered due to the health crisis as well as prospective effects, as well as on the actions undertaken and those planned to deal with the crisis, based on the guidelines provided in statements and calls to attention (in particular, those of ESMA and CONSOB); (iii) measuring and determining impairment; (iv) the overall adequacy of the administrative accounting structure, organisational structure and the Internal Controls System in the context of the pandemic.

The Board of Statutory Auditors periodically reviewed reports on the actions implemented to mitigate the impacts of Covid-19, in terms of operating measures aimed at limiting the spread of the disease and commercial measures to limit negative economic effects linked to the health emergency.

Based on the main information acquired in carrying out its duties, certain significant events were also identified which it was deemed expedient to note, even if for the most

part they are illustrated in the Group's Report on Operations, to which the reader is referred:

- in March 2020 an agreement was signed to acquire 51% of the equity of Alto Sangro Distribuzione Gas, a methane distributor with a presence in twenty-four municipalities in the Province of l'Aquila;
- in April 2020 an agreement was signed to acquire 60% of the equity of the companies Ferrocarr S.r.l. and Cavallari S.r.l. (which holds 100% of Multigreen S.r.l.), which store, process and sort waste in the provinces of Terni and Ancona;
- in May 2020 an agreement was finalised to acquire 70% of the equity of Simam S.p.A. (Servizi Industriali Manageriali Ambientali), a leading company in the design, construction and management of water and waste treatment plants, in environmental works and reclamation, with hi-tech integrated solutions;
- in May 2020 Fitch Ratings confirmed its Long-Term Issuer Default Rating (IDR) for ACEA of "BBB+" with "Stable" outlook, and the Short-Term IDR of "F2";
- also in May 2020 the ACEA Shareholders' Meeting approved the Financial Statements as at 31 December 2019 and approved the payment of a dividend of € 0.78 per share. The Shareholders' Meeting appointed the new Board of Directors with Michaela Castelli as Chairperson, in office for three years, until approval of the 2022 Financial Statements. At its first meeting on the same day, the Board of Directors appointed Giuseppe Gola as the Chief Executive Officer of the Company;
- in July 2020 Standard Ethics improved the Outlook for ACEA from "Stable" to "Positive", with a current rating of "EE-". The Company is on the SE Multi-Utilities Index;
- in October 2020, the ACEA Board of Directors approved the 2020-2024 Business Plan with a heavy push towards sustainability, annual average EBITDA growth of around 7% and investments totalling around € 4.7 billion, of which over € 2 billion linked to specific sustainability targets;
- in November 2020 the Extraordinary Shareholders' Meeting of Servizio Idrico Integrato (SII) approved certain amendments to the Articles of Association. Additionally, the contract was finalised for ASM (controlled by the Municipality of Terni) to sell units of the former company to Umbriadue (an Acea subsidiary), which increased its equity investment in SII from 25% to 40%, making it possible to consolidate the company in the ACEA financial statements on a line by line basis;
- in January 2021 Fitch Ratings confirmed its Long-Term Issuer Default Rating (IDR) for ACEA of "BBB+" with "Stable" outlook, and the Short-Term IDR of "F2". Additionally, the Long-Term Senior Unsecured Rating of "BBB+" was also confirmed;
- also in January 2021 the first placement of a € 900 million Green Bond was successfully completed.

The figures for 2020 in the individual and consolidated financial statements, as well as the non-financial information demonstrate the continued presence of 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.

Consolidated revenues total € 3,379.4 million, up by 6.1% with respect to 2019. Consolidated EBITDA increased by 10.9% to € 1,155.5 million (€ 1,042.3 million in 2019). The trend seen in these results, showing organic growth exceeding 10%, can mainly be attributed to the positive performance achieved in regulated water and electricity distribution.

EBIT amounts to € 535.0 million, up by 2.3% with respect to 2019. The result includes greater amortisation and depreciation, up by 21.7%, mainly relative to the Water Segment (the effect of consolidating AdF, € +20.8 million) and Energy Infrastructure (acceleration of depreciation for first generation meters following the second generation meter replacement plan).

Net financial charges fell by € 7.4 million with respect to 2019. At 31 December 2020, the global average all-in cost of the ACEA Group's debt stood at 1.74%, compared to 2.15% in 2019.

The Group's net profit reached € 284.9 million, slightly higher than the figure the previous year (€ 283.7 million).

2020 net profit includes non-recurring components, mainly due to revaluations relative to consolidation of Acquedotto del Fiora. Normalised net profit shows an increase of approximately 22%.

Investments made in 2020 total € 907.0 million, up with respect to the € 792.8 million the previous year (+14.4%). 84% of investments were for regulated activities.

Net working capital increased by € 22 million based on regulatory effects and the impact of Covid-19 on amounts collected.

The Group's net financial debt increased by € 465.2 million, going from € 3,062.8 million at the end of 2019 to € 3,528.0 million at 31 December 2020. The trend for debt was mainly influenced by greater investments and the change in the scope of consolidation, as well as regulatory effects and the impact of the Covid-19 emergency. At 31 December 2020 the NFP/EBITDA ratio was 3.05x and the NFP/RAB ratio was 0.74x. At 31 December 2020, 81% of debt is fixed rate, ensuring protection against any increases in interest rates as well as any financial or credit volatility. At 31 December 2020 the average duration of medium/long-term debt stood at 5.4 years.

Its excellent strategic and geographic position, as well as its effective management, demonstrate the existence of further possibilities for development, which it is held the company can pursue in the near term, as seen in the 2021 Guidance submitted to the market by management.

The Board of Statutory Auditors has recommended management always keep top of mind the need to balance developing profitability with a prudential risk appetite, while continuing to closely monitor controls intended to guarantee sustainable behaviour, in full compliance with current regulations.

In fact, it seems clear that the company strategy must continue to 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 Chairperson and the Chief Executive Officer, 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.

In particular, the Company began analysis and assessment to identify all the necessary corrective actions for its internal procedures in order to fully implement the changes made to the CONSOB regulation on Related Party Transactions, which will take effect on 1 July 2021, issued to implement the delegation contained in Italian Legislative Decree no. 49 of 10 May 2019.

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 S.p.A., 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 S.p.A. Shareholders' Meeting appointed PwC S.p.A. 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 31 March 2021 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 2020, 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, these are declared as published in a clear manner, such as to accurately and properly represent the equity and financial position, the economic result and cashflows for the year ended 31 December 2020. Moreover, in the opinion of the external auditor, the Report on Operations and the information pursuant to paragraph 1, letters c), d), f), l), m) and to paragraph 2, letter b) of art. 123-bis of the TUF contained in the Report on Corporate Governance are consistent with the financial statements.

Also through its interactions during the year with the Auditing Firm, the Board of Statutory Auditors:

- has verified compliance with communications issued by various Regulatory Authorities, in particular with reference to statements/calls for attention/interpretations issued during 2020 after the spread of the Covid-19 health emergency;
- with reference to the obligation for listed companies to prepare and publish their financial reports in eXtensible HyperText Markup Language (XHTML) format, using Inline Extensible Business Reporting Language (iXBRL) to map the main items in the consolidated financial statements (established by the European Single Electronic Format Regulation - ESEF), acknowledged the extension regarding the date on which the regulation takes effect (originally set for financial year 2020), approved by the European Parliament in December 2020, to which Italy adhered with Law 21/2021 (converting the “1000 Postponements”);
- acknowledged the uncertainties linked to the Covid-19 health emergency, with possible impacts on future scenarios and economic/equity results still unpredictable, given the uncertainties correlated with the exceptional duration of this pandemic event.

The Board of Statutory Auditors has also examined the additional report issued by the Auditing Firm to the “Internal Audit and Audit Committee” on 31 March 2021, pursuant to article 19 of Italian Legislative Decree 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.

The main areas covered in the report mainly refer to:

- ATO 5 S.p.A. - 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. 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 S.p.A.'s shareholding in Ato 5 S.p.A. was subject to an impairment test as at 31 December 2020 (together with all the other shareholdings recorded in Acea S.p.A.'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. Recently, the relevant authority approved a new tariff plan which includes a hypothetical tariff less than that hypothesised by the Company when preparing its business plan, which served as the basis for impairment activities. The Notes to the financial statements report sensitivity to the possible effects and impacts of this different tariff structure, while also provided possible compensatory measures which management could implement in terms of cost reductions. The company has significant debt with regards to the parent company Acea S.p.A., full recoverability of which is expected in the light of the financial plans of ATO 5 S.p.A., which include taking advantage of the RAB at the end of the concession and full recovery of tariff adjustments over the period of the plan, it not being possible to exclude a need for Acea S.p.A. to write-down the receivables due to it if over time different trends arise in contrast to those foreseen in the company's planning documents);
- Purchase Price Allocation (during 2019 and 2020) 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 2019 acquisitions, the Company completed the purchase price allocation transactions for two companies, one of which (Acquedotto del Fiora S.p.A.), consolidated through the modification of the shareholders' agreements (with the acquisition price determined by an independent expert, by determining the fair value of the stake held as of the date of acquisition of control). For the companies included in the scope of consolidation during 2020, 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 2021 and will involve 17 companies, one of which (SII SCPA) with acquisition of control, as for Acquedotto del Fiora S.p.A., through the revision of the shareholders' agreements).

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.

In any case, the Board of Statutory Auditors was informed of certain issues and/or areas for potential improvement in the internal control system in relation to the financial reporting process, assessed by the Auditor as “not significant”, which will be formalised in the Management Letter which is habitually sent to the Company.

These aspects were discussed and examined with the Board of Statutory Auditors, which will take them into account when making their observations to the Board of Directors, in compliance with that established in article 19, paragraph 1, letter a) of Italian Legislative Decree 39/2010, together with the additional report providing additional information and on the adoption of the measures under the responsibility of the Administrative Body.

The Control and Risks Committee and the Board of Directors approved an update to the impairment test procedure which describes the process, roles and responsibilities with regards to the preparation of impairment tests, amending the version adopted by the Board of Directors on 19 February 2020 in a limited number of areas.

At its meeting on 10 March 2021 the Board of Directors examined the results of the impairment test at 31 December 2020, prepared through the application of the aforementioned procedure. The Company appointed an external entity to verify all the substantial elements in the impairment process for this test, also including an audit of the procedure. Cash flows used for the evaluations were processed on the basis of the 2020-2024 Business Plan, also preparing appropriate sensitivity analysis. The above was also in the light of the expediency of carrying out in-depth assessments in the light of the ongoing pandemic, as was also requested by bodies such as the European Securities and Market Authority (ESMA), CONSOB and the standard setter (OIV – Italian Evaluation Body).

While the market capitalisation of Acea S.p.A. is higher than the value of the Group's shareholders' equity, the second-level impairment test was carried out without finding any issues.

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.

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 S.p.A. 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.

In agreement with the external auditor, the Board of Statutory Auditors has also 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.

To that end, during the year and in compliance with the referenced provisions on audits, the Board of Statutory Auditors preventively approved, after the relative checks regarding potential non-compliance risks, the various audit appointments granted to the Auditing Firm and companies within its network.

Note that a specific internal regulation is in effect at the Group level which governs operations linked to these audits and the granting of appointments for non-audit services.

In 2020, with reference to fees paid to PricewaterhouseCoopers S.p.A., in compliance with the regulations in effect, and to offer complete disclosure, a request was made to add to the audit fee due to greater work and greater expense with respect to the proposal made with regards to the nine-year audit appointment approved by the Shareholders' Meeting.

These requests for additional amounts were put forward in relation to cases suitable to justify this change, based on that established in the general conditions of the contract that governs audit activities.

Considering the characteristics and size of the addition, as well as the legitimate reference to the above cited contractual clause, the Board of Statutory Auditors granted the requested addition, also obtaining the evaluations made on the subject by the Board of Directors.

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 30 March 2021, 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.

The Board of Statutory Auditors also acknowledged the Transparency Report prepared by the Auditing Firm, published on its website pursuant to article 13 of Regulation EU 537/2014.

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 2020 financial year the PwC network was awarded a fee for the following non-auditing services:

Services other than auditing provided to Acea S.p.A. during the year 2020			
Category	Subject which provided the service	Description of service	Amount /mgl)
Audit Related Service	PwC S.p.A.	Limited audit of Acea S.p.A. non-financial declaration	50
Audit Related Service	PwC S.p.A.	Auditing of accounting separation schedules (unbundling) for Acea S.p.A.	15
Audit Related Service	PwC S.p.A.	Issuing a Comfort Letter to issue and renew the bond loan issued for the EMTN programme	120
Total certification services			185
Non-Audit Service	PwC S.p.A.	Support for the Financial Reporting Officer for 262 tests	131
Total other services			131

The ratio between the cost of non-audit services and the three year average of audit services is below the limit established in applicable regulations (70%).

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 Chief Executive Officer, 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 management and control model of the Acea Group pursuant to Italian Law no. 262/2005 (hereinafter the "262 Model").

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 has read the the Financial Reporting Officer's plan for independent tests, both manual and automatic, prepared on the basis of the statements made by process managers, and to obtain an independent verification able to guarantee effective execution of the controls, as well as their substantial efficacy.

The Board of Statutory Auditors has also taken note of the completion of the combined activities to update all administrative and accounting procedures.

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. 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).

In 2020 the Group continued with its 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 a significant percentage of participants.

The Board of Statutory Auditors has also noted the implementation of a dedicated IT platform, making it possible to supplant the significant amount of manual activities included in the previous system used to manage information flows within the Group.

Therefore, the Board of Statutory Auditors recommends that the Group continues to continually refine the current set-up of its administrative accounting system, in terms of accounting policies, processes, and procedures and the organisational, IT and data governance structures.

During periodic meetings with the Board of Statutory Auditors for the purpose of exchanging information, as in the "Report on the Financial Reporting Officer's activities to prepare accounting and corporate documents to issue the declaration established under art. 154-bis of the TUF on the annual financial report at 31 December 2020", 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 2020 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 the light of the information received and the documents examined, having noted the activities under way, considering the support that will be provided to the Financial Reporting Officer appointed by the Internal Audit Function, who has specialist IT skills available to verify the design and functioning of the IT General Controls, the Board of Statutory Auditors has no observations to make to the Shareholders' Meeting with reference to the administrative accounting system.

9. Supervision of the non-financial reporting process

As part of the responsibilities assigned to it, the Board of Statutory Auditors has monitored, including through periodic meetings with relevant structures and with the Auditing Firm, observance of the provisions found in Italian Legislative Decree 254 of 30

December 2016, in particular with reference to the preparation and contents of the Non-Financial Declaration.

To that end, having examined the declaration made by the Auditing Firm pursuant to article 3, paragraph 10 of Italian Legislative Decree 254/2016 and the declaration made by the same relative to Report on the Consolidated Financial Statements pursuant to article 4 of the CONSOB Regulation implementing the above Decree, the Board did not identify any issues of non-compliance and/or breach of the reference regulations.

In fact the Declaration was subject to a limited audit by PriceWaterhouseCoopers S.p.A., which issued a statement regarding the conformity of the information provided with respect to the requirements of Italian Legislative Decree 254/2016 and with respect to the standards and methods established in the accounting standards adopted.

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).

Relative to the Suggestions Letter prepared by the Auditing Firm after its activities involving the Non-Financial Declaration for the year 2019, the Board of Statutory Auditors verified that the recommendations contained therein were duly considered by the Company's structures when preparing the Non-Financial Declaration for the year 2020.

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 procedure "Defining the scope of the consolidated non-financial declaration (Legislative Decree 254/2016)" establishes that through acquisition of data and information relative to the interim report at 30 September and information pertinent to the same management period coming from other sources of company information, the

corporate scope for the non-financial declaration must be processed and defined by November.

To that end, in 2020 entries of new companies within the NFD perimeter were assessed, calibrated and weighted on the basis of their importance to the Acea Group's strategic and operating prospects, guaranteeing balanced presence for the industrial areas being developed: the water segment; environment segment; business development strategies, production and foreign; commercial and trading.

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. To that end, before beginning activities to prepare the NFD for 2020, information about the GRI standards, their development and assessment of the new specific standards which must be applied as of the reporting cycle for 2020 was obtained from the relevant internal structures.

In line with its business and sustainability strategy, during 2020 Acea approved the 2020-2024 Sustainability Plan.

In particular, the general operating structure of the Sustainability Plan was confirmed, with 5 macro-objectives, 15 areas of action and 25 operating objectives. On the other hand, the specific targets associated with each of the 25 operating objectives were reviewed and revised, for a total of 125 targets, with specific targets (and KPIs) assigned to individual Acea departments and to Group companies within the scope of consolidation.

In this regard, the Board of Statutory Auditors holds it particularly important that sustainability aspects be progressively incorporated into the management of the company, taking into account both the sustainability aspects related to strategic planning for business areas and the inclusion of ESG objectives in the incentive plan for management.

In this sense, an integrated expression of the Group's strategic, business and sustainability objectives was judged to be very important, with simultaneous emphasis of both aspects linked to the economic solidity of business growth and of the social and environmental results expected, in the framework of relevant UN sustainable development goals (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.

Particularly important for the Board of Statutory Auditors is also 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 S.p.A., 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 2020 Reports of the Internal Audit Function and the Control and Risks 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 Risks 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 Corporate Governance Code for listed companies and, on 16 December of the previous year, the Board of Directors favourably evaluated the adoption of the new Corporate Governance Code, authorising the Chairperson, in coordination with the Control and Risks Committee, and making use of the relevant functions, to proceed in coming months to carry out all necessary research and identify the actions deemed necessary for suitable implementation of the principles and recommendations contained therein.

Acea 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.

The Board of Statutory Auditors has taken note of the Internal Audit analysis done for the overall Internal Control and Risk Management System, for the purposes of assessing its suitability, taking into account:

- the existence and functioning of the components (control area, risk assessment, control, monitoring and review activities) included under the Internal Control framework, published by the Committee of Sponsoring Organizations of Treadway Commission (CoSO);
- guiding, control and monitoring activities for second level controls carried out by company structures other than those in which the risks are managed;
- the structure, functioning and results of activities carried out by the Internal Audit Function during 2020;
- interactions and exchanges of information between the Internal Audit Function and various control structures established within the corporate structure, including the Board's internal Control and Risk Management Committee, the Board of Statutory Auditors and the Supervisory Body.

The SCIGR 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 2020, 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.

Even if the analysis done indicates that the gaps identified did not lead to situations that could damage the strength of the Internal Control and Risk Management System adopted by Acea S.p.A. and its subsidiaries, which is therefore suitable and operational as a whole, even if there are areas for improvement in terms of the design still being resolved, the number and structure of the corrective actions identified during the audit activities (not

yet complete) make it necessary to define them upon completion of the Group's ERM Governance and Regulation projects currently being implemented.

In fact, to that end, the Company has:

- 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 objective of the Function is to obtain a clear definition of the Acea Group's governance model, which serves as the foundation for the consequent comprehensive standardisation of company processes, to be correlated with the relative risks in line with the organisational structure;
- defined, with the assistance of an independent consultant, an 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.

In this light, sharing and appreciating the initiatives begun by management, the Board of Statutory Auditors recommends prompt completion of the same.

In fact, full resolution of certain areas for improvement identified in the audits of the overall internal control system must consider, in the Board of Statutory Auditors' opinion, a strategic decision regarding the placement of decision making points, control safeguards and the relative responsibilities in the relationship between the parent company and its investee companies, with reference to which it is important for the Board of Directors to indicate its own strategic stance relative to the Group's governance model.

The Board hopes that coordination is promoted between control safeguards, both with reference to planning activities and, above all, through the ever increasing integration and efficacy of reporting to the Corporate Bodies on findings resulting from audits performed. To that end, it holds that initiatives to homogenise and coordinate control safeguards should be implemented including, in particular, the approval of a shared methodology used to assign scores to findings and corrective actions identified. This activity, together with massive analysis of gaps already begun to homogenise scoring, could be used to prepare an integrated Tableau de Bord for all Control Functions (including the Financial Reporting Officer, including the insertion of suggestions made in the Management Letter), is an important objective to be achieved with an eye to avoiding overlaps and making the process of monitoring corrective actions more efficient.

The process should also call for the creation of an integrated application platform, to guarantee a uniform approach to the collection and sharing of data resources by each Function, and to offer organic reviewing of information flows (between departments and to Bodies/Committees).

These could be the objectives for an Internal Control System Coordination Committee, to which the results of audits could be reported, as well as evaluation of residual risks and, more generally, assessment of the adequacy of the SCIGR.

Internal Audit, which will develop a 2021 audit plan which will consider aspects regarding emerging trends and risks, significant organisational changes, the Group's main operations and ascertainments of operational irregularities and external fraud, has continually evaluated the overall strength of the Group's Internal Control System, while also considering operating solutions (smart working and an increase in remote operations by customers) and contingency processes activated to deal with the Covid-19 emergency. To that end, Audit has implemented, after the first total lockdown and based on a request from the Board of Statutory Auditors, a specific check intended to ascertain any impacts on the SCIGR deriving from the work methods of employees and interaction with customers during a health emergency. The results of this research did not identify any issues in terms of operational continuity or the application of controls.

In this light, the Board recommends the continuation of activities intended to investigate the automatic control system, already used during 2020 by the Audit Function. In fact, this area of development follows the opinion stated multiple times by the Board that the implementation of an evolved control framework, making use of new technology and tools for data analysis and processing, is the foundation for ever greater efficacy and predictive capacity in the Control System. The Board of Statutory Auditors therefore recommends continuing with the Digital Transformation project begun by the Internal Audit Function, intended to develop innovative models and solutions for continuous auditing of the Internal Control System, by identifying and introducing specific tools able to improve the efficacy and efficiency of the model and anticipate needs in supervisory plans.

This would mean going from mainly manual activities to audits which include the increasing use of data mining technologies, analytics (KRI and RPA) which allow for extended analysis of the population and the preparation of risk monitoring indicators (to be made available to process owners), with a team that includes various types of skills (audit, IT, business, data analytics).

At the same time, the Board recommends progressive strengthening of the first level control model. Also in the light of the results of checks and audits performed by the Audit Function, the Board has recommended that special attention be paid to the substance of controls implemented at the first level. In this context, it is important that a control

culture be promoted, also by top management, not to be seen as a negative concept, but rather as a tool to support the business.

The Board of Statutory Auditors also notes a pilot project begun with the assistance of external consultants, intended to evaluate the expediency of digital developments and automation in processes relative to Italian Legislative Decree 231/01 and Italian Law 262/2005. The completed project noted the expediency of creating an overall strategy to deal with and reduce manual controls in terms of financial reporting, subsequently extending Robotic Process Automation (RPA) to other activities which are currently manual and could be automated.

This transformation process must be aimed at revising the current approach to and perception of internal audit activities in terms of people, methodology, communication and integration.

The Board of Statutory Auditors deems equally important the progress made in other projects in which the Internal Audit Function was involved in 2020, including:

- recognition of the design of the Entity Level Controls for the SCIGR of newly acquired or consolidated companies to identify possible opportunities for improvement in order to progressively align them with the ACEA control model, as a function of the complexity of each Entity;
- monitoring certain sensitive processes within the accounts payable cycle during the Covid-19 emergency to assess risk exposure to irregularities linked to new operating methods (smart working), by identifying and examining a set of Key Risk Indicators;
- support for the Financial Reporting Officer, through the specialist ICT Audit and FRO Support team, in the execution of checks relative to the Internal Control over Financial Reporting sector, for the purposes of Compliance 262/05;
- support for the Ethics Officer in the adoption of the ACEA Group's whistleblowing platform;
- support for the 231 Supervisory Body in implementing the new information flows following the update to the Organisation and Management Model pursuant to Italian Legislative Decree 231/01.

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 2020, the Integrated Certification Systems Unit of Acea S.p.A. performed audits on all processes included in the four management systems, as defined by the annual calendar of internal audits.

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. Special attention was obviously paid to provisions implemented by the Company to guarantee the health and safety of employees and all individuals who interact with the Group during the current health emergency.

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. In any case, note that the analysis done provides a picture of a privacy governance model that is still being strengthened in certain areas, even if its essential parts have been implemented.

Therefore, the Board of Statutory Auditors continues to believe 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.

Additionally, the Board of Statutory Auditors favourably noted the attention paid the regulatory aspect by management, by establishing a dedicated company unit. The Board

of Statutory Auditors met with the new manager of this Function, recommending that the unit continue to dedicate itself to supporting the growth of a regulatory culture within the Group and acting to achieve overall compliance assurance relative to company bodies.

With reference to the antitrust compliance programme, currently in its initial stages of implementation, during 2020 measures to strengthen and enhance company safeguards were developed, as well as improving awareness within the Group and its individual companies. At present almost all relevant Companies have approved their own Antitrust Compliance Programmes and appointed a local Antitrust Representative, in order to actively monitor antitrust risk identified at the Company level. Additionally, after analysing information flows, it was determined that the Companies, in preparation for approval of the Model, carried out Antitrust risk analysis and planned and/or implemented actions to mitigate and monitor these risks.

Based on the information examined, varying approaches were sometimes seen in the conduction of analysis, which while completely and accurately representing the risks and possible problems for a Company, may in any case be subject to further specific research with the Antitrust Representative to ensure alignment at the Group level.

To that end, the Board of Statutory Auditors notes that the Antitrust unit has scheduled implementation of all needed further improvement, corrective and/or update measures for the Programme (e.g. inclusion of further specific safeguards within the processes most exposed to Antitrust risk and periodic training updates for Company personnel to ensure continued dissemination of knowledge on relevant regulations and jurisprudence).

With reference to the activities of the Ethics Officer, responsible for 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 has noted that, after completion of the associated project activities, a specially designed IT platform was implemented to manage whistleblowing.

This platform uses an advanced encryption system for communications and its database to guarantee compliance with regulatory standards, confidentiality for whistleblowers, secure filing of documents sent and uploaded to the system and confidential management of analysis and other processes. The platform was designed and implemented for this type of notification, in line with Acea's governance rules, based on a multi-channel logic. In fact, it has an automatic system which directs notifications

allowing activation of the appropriate transmission channel after the theme of the notification and the relevant company have been identified.

Communication programmes and training activities were activated to further disseminate the principles contained in the Code of Ethics and support the adoption of a whistleblowing system within the Companies of the Group, promoted by the Ethics Officer. This included an initial communication campaign, “I protect the Company that protects me”, which aimed not just to inform and improve the awareness of Acea Group employees about the Code of Ethics, but also to support and incentivise whistleblowing and use of the new dedicated platform as a positive tool to protect people and combat actions which violate that established in the Code of Ethics.

During the period, various notifications of presumed violations of the Code of Ethics were received the platform, for the most part identified as “no evidence and/or non-verifiable”, which were then archived. Three notifications were classified as “non-inherent”, in that they were linked to cases of a technical/commercial nature. These were filed and sent to the relevant structures of various Group companies for handling, with a later report to the Ethics Officer. On the other hand, three notifications were classified as “inherent”. Of these, one was deemed unfounded, another was filed, and another was deemed founded and the relative company has begun proceedings against the individual identified.

The Board of Statutory Auditors has continually guaranteed communication of information with the Supervisory Body. In particular, the Board of Statutory Auditors agrees with the recommendation made by the Supervisory Body to promptly complete the activities begun to update the Model to comply with regulatory and organisational changes.

B. Risk Management System

Acea S.p.A. has put in place for some time now 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.

In this light, with the support of a leading consultant, the Company has begun 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:

- strengthening areas inherent to risk governance, developed parallel to a comprehensive project to revise 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.

This project initially enabled the relevant ERM Function to carry out a complex Group risk assessment process, identifying the main business risks the Acea Group is exposed to, the current methods of managing them and the further mitigation actions proposed by management.

After the Group risk assessment, a report was produced for the company bodies which illustrated the main risks the Group is exposed to, current methods used to manage them and possible additional mitigation actions proposed by management. The methodology and metrics used (economic/financial or reputational impact clusters, probability) made it possible to identify and assess a combination of risk scenarios falling into given clusters, indicating the level of severity. The classification of “Top Risks” was given to those underlying these risk scenarios, as a function of the level of severity. For these “Top Risks”, a series of possible further mitigation actions were identified by management, when possible, so as to reduce the severity to a lower level. The Board of Directors held that these “Top Risks”, due to their nature and level of severity, after possible further mitigation actions proposed by Management, are compatible with business management in line with the Group’s strategic objectives as outlined in the 2020-2024 Business Plan, authorising the Chief Executive Officer, through the relevant structures, to develop the further mitigation actions to implement relative to these “Top Risks” and to monitor progress in implementation of the same, periodically reporting to the Control and Risks Committee.

The Board of Statutory Auditors has followed this process since its start in 2019, with certain preparatory activities completed in 2020.

In fact, project completion requires the definition of a Risk Policy and Key Risk Indicators able to offer quantitative structuring of company risks, essential elements for implementing an ACEA Risk Appetite Framework to be submitted to the Board of Directors for approval, after evaluation by the Control and Risks Committee.

The RAF represents an element required for the preparation of a Budget at Risk, an additional step in the activities in progress and held to be absolutely essential by the Board of Statutory Auditors.

In this light, the Board of Statutory Auditors notes completion of activities relative to methodologies and application tools for reporting activities relative to top management, and the insertion of ERM content in the Non-Financial Declaration, but recommends that the above activities needed to complete the project, which was begun in 2019, be completed in 2021.

The Board of Statutory Auditors also recommends that current activities to implement dedicated software be promptly completed, aimed at carrying out the entire Group risk assessment process through a dedicated platform.

Completing the process of managing and monitoring the Group's risk indicators and activities linked to the same would also allow periodic executive reports for company bodies (Dashboard) which, combined with the completion of the detailed methodologies inherent to M&A@Risk and Budget@risk processes, would permit the definition of Board of Directors decision making processes based on expected risk/return.

This involves implementing in 2021 reports inherent to risk exposure models and metrics, making the reports going to the Company Bodies (among others) more complete, timely and comprehensible, with the aim of further increasing the knowledge of their members in terms of the risks taken on, also in relation to business and operational decisions.

The adoption of an M&A framework for risk analysis, both during the preliminary and Due Diligence stages with regards to the company to be acquired, would in fact offer support for decision making with risk-informed analysis, developed in an integrated manner, strengthening assessments of extraordinary transactions by acquiring useful data and information about the complexity and costs of the post-closing integration plan for companies acquired by the Acea system.

Finally, the Board of Statutory Auditors once again notes its conviction that, as Acea has a significant presence in the management of regulated strategically important infrastructure for the provision of essential public services in the communities it serves, and as it has developed significant projects intended to reduce the inherent risk of this strategic infrastructure, it is necessary for the relevant Public Authorities to promptly complete the relevant research processes to grant authorisations to the Acea Group to develop new strategic infrastructure, of extreme importance for the continuing operation of essential public services, so as to allow the concessionaire the opportunity to make full use of its technical and operational potential to serve its communities.

C. Organisational Structure

The Board of Statutory Auditors examined the documentation concerning the overall organisational structure of Acea S.p.A..

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 S.p.A. 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.

Similar attention should be paid to the development of the ACEA Group's organisational model and the method of making use of the management and coordination powers and duties held by the Parent Company. This is in particular true in the light of the recent organisational change which created the organisational position of Chief Operating Officer.

Hence, current considerations being made regarding the methods for exercising management and coordination must be concluded, in respect for the corporate autonomy of investee companies. 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.

Finally, in the organisational area, it is to be hoped that the Company makes use of the experience gained from the pandemic to further develop its digitalisation processes (including adequate personnel training, intended to support a radical change in the approach to work which goes beyond physical interaction with customers) and its technological tools (to support remote work and communication methods, already strengthened during the initial stages of the pandemic), all with an eye to respecting and promoting sustainability.

11. Remuneration policies

The Board has taken note of the Report on Remuneration, prepared pursuant to art. 123-ter of Italian Legislative Decree 58/98, art. 84-quater of the Issuers' Regulation and the relative Annex 3A, schemes 7-bis and 7-ter. This report, pursuant to art. 6.P.4 of the Corporate Governance Code, as well as principle XVI of the Corporate Governance Code, was approved by the Board of Directors based on a proposal from the remuneration committee.

The remuneration policy defines the criteria and guidelines for remunerating members of the Board of Directors, including Executive Directors and Directors with special, for Executives with Strategic Responsibilities and for members of the Company's Board of Statutory Auditors, over a period of time coinciding with the financial year in course.

This was prepared in compliance with the new regulatory framework (art. 123-ter, TUF), updated by Italian Legislative Decree 49/2019, which contains the provisions necessary for implementation of Directive EU 2017/828 of the European Parliament and Council of 17 May 2017 (SHRD II), which amended Directive 2007/36/EC (SHRD) relative to encouraging long-term commitment from shareholders.

Additionally, it was prepared in compliance with the contents of CONSOB resolution 21623 of 11 December 2020, which implemented that called for in SHRD II.

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.

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 2020 for any reason or in any form.

The Board of Directors also approved changes to the short and long-term incentive system, with the aim of confirming and strengthening the presence of indicators linked to ESG objectives for management.

The short-term incentive model was also adjusted with the aim of guaranteeing an immediate correlation between the level of achievement for objectives and the amount of the variable compensation, a clear correlation between solidity performance and business growth and rigorous control over cost trends.

The incentive system was revised to focus on objective and measurable objectives, eliminating assessment of behaviours so as to guarantee a direct correlation between the results achieved (Group, company and individual) and the result of the assessment process.

The Board of Statutory Auditors also noted that the Appointments and Remuneration Committee examined the first results of the succession planning process in progress and 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.

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.

In this light, the investments planned with the aim of achieving a comprehensive update of the Group's IT system are considered by the Board of Statutory Auditors to be of essential importance, to guarantee an ICT system that can fully support business and control activities, in order to avoid the adoption of organisational contingency actions, with impacts on both economic and human resources. The relevant company structures have performed the necessary assessments relative to architecture, infrastructure, data governance and data quality, processes, working methods and sourcing strategies, after which they defined improvement plans focussed on updating architecture, infrastructure and applications to accelerate digitalisation.

To that end, it should in any case be noted that the system has guaranteed continuity and reliability, also in the face of notable cyber attack attempts, also during the complicated period of the initial stage of the health emergency.

The IT security strategy adopted by the Acea Group, in line with that of other major industrial corporations, calls for integrated management of Information Security, ICT Security and Cyber Security. In particular, to achieve strategic objectives and regulatory compliance, Acea has developed a security management model that is divided into three areas: organisation, processes and technologies.

The initiatives identified relative to cyber security can be classified as either projects that are for the most part procedural/organisational or as those which are technological.

The Board of Statutory Auditors holds current activities regarding Business Impact Analysis to be of particular importance, intended to identify the impacts of an IT attack on business, in terms of the confidentiality, integrity and availability of information. This makes it possible to identify, analyse and define the areas of greatest risk for real business, to determine whether the protective activities in place are sufficient or require strengthening.

Of similar importance is the process under way to fully revise the entire regulatory system for the ICT area. The information security incident management procedure was reviewed in this light, as it manages the management of all IT security events and incidents which could have an impact on the IT infrastructure and productive systems of the Group, as well as the rights of the relevant interested parties.

The Board of Statutory Auditors hopes that the revision of the guidelines on measures for managing the security logic for information is also completed promptly, as these serve to govern processes and activities inherent to the macro-process of managing the security logic for information, establishing roles and responsibilities for those involved. This is currently in progress.

In this area, the operations of the Computer Security Incident Response Team (CSIRT) are also important. Among other things, they are responsible for ensuring real time monitoring of IT infrastructure and the public access data networks (e.g. Internet), to promptly identify potential threats and attacks for the Group, coordinating the necessary activities in relation to the CSIRT service, also for OT infrastructure.

The Board of Statutory Auditors also recommends that current activities regarding data driven management allows for the completion of activities in progress to create an Executive Dashboard, consisting of a series of performance and operational risk and control indicators intended to further facilitate immediate and periodic comprehension of the Acea Group's economic, financial and equity performance for the Board of Directors, as well as its operational trends in the main operating segments in which it works.

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 S.p.A. declares its compliance. Pursuant to art. 123-bis of the TUF and art. 144-decies of the Issuers' Regulation, Acea S.p.A. has prepared the annual "Report on Corporate Governance and Ownership Structure";
- 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 2020 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 has not received any communication and/or complaints, including those qualified as such under article 2408 of the Civil Code, other than those outlined in its report to shareholders the previous year.

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.

In addition, the Board of Statutory Auditors reports:

- it 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 an external consultant, 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;
- 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.

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 Chairperson of the Board of Directors does not hold the position of Chief Executive Officer 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 Chief Executive Officer 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 2020 and the dividend distribution formulated by the Board of Directors.

Rome, 31 March 2021

Signed by Maurizio Lauri

Signed by Pina Murè

Signed by Maria Francesca Talamonti

This report has been translated into the English language solely for the convenience of international readers



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 2020



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 2020, 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 2020, 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 Segments" of the report on operations which describes:

PricewaterhouseCoopers SpA

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- The uncertainties regarding the subsidiary Acea Ato5 SpA linked to (i) the financial imbalance which arose following the Area Authority’s approval of the 2020-2023 tariff structure by resolution no. 1/2021 which casts significant doubt on the company’s ability to continue as a going-concern, (ii) the ongoing tax litigation and (iii) 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 2016-2020 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.

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 2020 investments in subsidiaries and associates for an amount equal to Euro 1,840 million.

Annually, the Company, in accordance with a specific internal policy, verifies the presence, if any, of impairment losses of investments in subsidiaries and associates in compliance 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 main investments apart from the presence of any impairment indicators emerged during the year. With reference to the financial statements for 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 is 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 2020-2024 Industrial Plan of the Group approved by the Board of Directors on 27 October 2020 and partially updated to take account of the events occurred between the date of approval of the Plan and the date of approval of the financial statements and ii) the mathematical accuracy of the quantification of the recoverable amount.

In particular, our audit activities were focused



year ended 31 December 2020, the Company's management had recourse to an external expert to perform the impairment testing.

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.

on the verification of the reasonableness of the main assumptions underlying the projected cash flows and the discount 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 with particular reference to the subsidiary Acea Ato5 in light of the Area Authority's approval of the 2020-2023 tariff structure.

As part of our audit activities, we availed ourselves, where necessary, of the support of the PwC network experts in valuations.

We also assessed the independence, technical capabilities and objectivity of the external experts who were tasked with carrying out the impairment tests.

Finally, we examined the disclosures provided by the directors in the notes to the financial statements in relation to the above-described matters.

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. 58/1998

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 2020, 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 2020 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 2020 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, 31 March 2021

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, Giuseppe Gola, as Chief Executive Officer, and Fabio Paris, 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 2020.

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, 31 March 2021

signed by: Giuseppe Gola, The CEO

signed by: Fabio Paris, The Executive Responsible for Financial Reporting

This report has been translated into the English language solely for the convenience of international readers





CONSOLIDATED
FINANCIAL STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

The Consolidated Financial Statements at 31 December 2020 of the Acea Group were approved by Board of Directors' Resolution on 10 March 2021, which also authorised their publication. The Parent Company Acea 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 Income Statement, the comprehensive Consolidated Income Statement, the consolidated balance sheet, the consolidated cash flow statement and the statement of changes in consolidated Shareholders' equity. The Report also includes notes prepared under the IAS/IFRS currently in effect. The Consolidated Income Statement is classified according to the nature of the costs, the items of the consolidated balance sheet according to the criterion of liquidity, with the items classified as current and non-current, while the consolidated cash flow statement 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 to those in the previous year.

ALTERNATIVE PERFORMANCE INDICATORS

On 5 October 2015, ESMA (European Securities and Markets Authority) published its guidelines (ESMA/2015/1415) on criteria for the presentation of alternative performance measures which replace, as of 3 July 2016, the CESR/05-178b recommendations. These guidelines were transposed into our system with 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:

- 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 operating profit/loss (EBIT) to "Amortisation, depreciation, provisions and impairment", insofar as these are the main non-cash items;

- *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 two years 2019-2020) net of non-current financial assets (excluding a part of Acea SpA's receivables related to IFRIC 12 and securities other than equity investments), current borrowings and other current financial liabilities net of current financial assets (including dividends to pay to Roma Capitale), and cash and cash equivalents;
- *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*;
- *net working capital* is the sum of the current receivables, inventories, the net balance of other current assets and liabilities and current debts, excluding the items considered in calculating the *net financial position*.

USE OF ESTIMATES AND ASSUMPTIONS

In application of IFRS, the preparation of the Consolidated Financial Statements requires the use of estimates and assumptions that have an effect on the values of revenues (including the estimate of the GRC as indicated in the Integrated Water Service Revenues in the management report), costs, assets and liabilities in the Financial Statements and on the information relating to contingent assets and liabilities at the reporting 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 original estimates and assumptions are periodically reviewed and the impact of each change is immediately recorded in the Income Statement.

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.

RISKS CONNECTED TO THE CORONAVIRUS (COVID-19) EMERGENCY

Please see the *Report on Operations* for a description on the main impacts the Covid-19 emergency had on the Group's activities. Note that at present these impacts have not had significant effects

on the Income Statement, nor has it created uncertainties that would reflect negatively on the presumption of the business as a going concern.

Finally, in the *Impairment Test* section below, the execution of the impairment test pursuant to IAS 36 is outlined, done so to take into account the global pandemic, which did not indicate a need to carry out any write-downs on the carrying values of tangible and intangible assets.

Relative to the recoverability of receivables, no particular risks were identified. Collection performance saw a slowdown during the initial months of lockdown and then returned to the same levels as those seen in the period prior to the pandemic. From the analysis done with regards to IFRS 9, no need was identified to carry out additional write-downs on the carrying values of receivables due to Covid-19.

CONSOLIDATION POLICIES, PROCEDURES AND SCOPE

CONSOLIDATION POLICIES

Subsidiaries

The scope of consolidation includes the Parent Company Acea 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 con-

tractually 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.

It is specified that the price allocation process is provisionally allocated to assets and liabilities and definitively accounted for within 12 months from the date of acquisition as required by IFRS 3.

Business combinations involving solely entities under common control

Business combinations which involve companies which are, definitively, under the control of the same company or the same compa-

nies both before and after the combination, and this control is not temporary, are classified as "Business Combinations of entities under common control". These are excluded from the scope of application of IFRS 3, nor are they governed by other IFRS. In the absence of a relevant accounting standard, the selection of the accounting standard for these transactions, relative to those for which a significant influence on future cash flows cannot be demonstrated, is guided by the principle of prudence, which leads to the application of the criteria of continuity of values for the net assets acquired. Assets are recognised at the book values found in the accounts of the companies acquired (or that of the selling company) prior to the transaction or, alternatively, the values found in the consolidated Financial Statements of the common Parent Company.

Particularly with reference to the above transactions, relative to the sale of a business unit, treatment of the difference between the contractually defined payment and the accounting value of the business transferred is differentiated as a function of the equity investment relationships between the entities involved in the transfer. Relative to transfers of business units under common control, on the other hand, regardless of the pre-existing investment relationship, the transferring entity must recognise the business transferred at its historic accounting value, increasing its Shareholders' equity by the same amount; the receiving entity must symmetrically recognise the equity investment in the transferring entity for an amount equal to the increase in the Shareholders' equity of the latter. This accounting treatment makes reference to that proposed by Assirevi in its Preliminary Guidelines on IFRS (OPI n. 1 Revised) – "Accounting treatment of business combinations of entities under common control in annual and consolidated Financial Statements", issued in October 2016.

Treatment of put options for shares of subsidiaries

Based on the provisions established under standard IAS 32, paragraph 23, a contract which contains a requirement for an entity to acquire shares for cash or against other financial assets, gives rise to a financial liability for the current value of the price to exercise the option. Therefore, if the entity does not have the unconditional right to avoid the payment of cash or other financial instruments if and when a put option is exercised on shares of subsidiaries, it must recognise this debt. All subsequent changes are recognised in the Income Statement. The same accounting treatment applies when, in addition to a put option, there is also a symmetrical call option, referred to as symmetrical put and call options related to non-controlling interest. The Group considers shares subject to put options (or to symmetrical put and call options) already acquired, in cases in which the economic benefits and risks linked to actual ownership of the shares does not remain with minority Shareholders.

Therefore, in these circumstances, it does not recognise the interests held by minority Shareholders in the consolidated Financial Statements.

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 2020, note the changes which occurred in financial years 2019 and 2020:

- the line-by-line consolidation of the company Pescara Distribuzione Gas, which the Parent Company acquired a 51% stake in on 18 March 2019;
- Acea Innovation was established on 25 June 2019;
- Acea Solar and Acea Sun Capital were established on 30 April 2019 (both subsidiaries of Acea Produzione). Acea Sun Capital has the function of accommodating acquisitions of photovoltaic systems. The first acquisition took place on 27 June 2019 through the acquisition of 100% of KT4. During the second half of 2019 and again during 2020 the following companies were acquired: Acquaviva, Compagnia Solare 2, Compagnia Solare 3, SPES, Solaria Real Estate, Brindisi Solar (all later incorporate into Solaria Real Estate during 2020), Sisine Energia, Luna Energia, Marche Solar, Urbe Solar, Urbe Cerig, Trinovolt, Bersolar, Euroline3, IFV Energy and PF Power of Future, Energia and finally Belaria;
- the full 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 2019; 60% Berg, a company performing waste management in the Municipality of Frosinone, acquired on 18 October 2019; 60% of the companies Ferrocarril and Cavallari and Multigreen on 22 April 2020; these companies own a total of four plants with a total authorised capacity of over 145 thousand tonnes per year, operate in the provinces of Terni and Ancona carrying out sorting and recovery of paper, iron, timber, plastics and metals and are also active in the management of the separate collection of production and packaging waste as well as in the disposal of waste;
- 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;
- the line-by-line consolidation of Consorcio Agua Azul effective

13 January 2020 by virtue of the amendment of the Shareholders' agreements and the purchase by Acea International on 13 January 2020 of additional shares in the company from the outgoing Shareholder Impregilo International Infrastructures N.V., which increased the Group's shareholding from 25.5% to 44.0% (+ 18.5%);

- the consolidation of SIMAM (Servizi Industriali Manageriali Ambientali) on 7 May 2020. The company is a leader in the design, construction and management of water and waste treatment plants, in environmental works and reclamation, with integrated solutions featuring high technological content;
- the 100% consolidation of the company Fergas Solar, acquired by Acea Solar on 15 April 2020, operating in the field of the development and construction of photovoltaic plants;
- the consolidation of 100% of the company Electric Drive Italia, acquired by Acea Innovation on 19 May 2020, which promotes the development of electric mobility through advanced IT solutions.
- the line by line consolidation of 51% of Alto Sangro Distribuzione Gas, a company operating in the gas distribution sector, and its subsidiary Notaresco;
- on 16 November 2020, an additional 15% stake was acquired in Sistemi Idrici Integrati (hereafter S.I.I.), thereby arriving at a total stake of 40%, with line-by-line consolidation as of that date after an amendment to the Shareholders' agreements;
- on 15/12/2020 the company Consorcio Acea was established, controlled by Acea Perù (99%) and Acea Ato 2 (1%). It has signed a three-year contract for operation of the water pumping stations in Lima.

We can note that the merger by incorporation of the companies Brindisi Solar, Acquaviva, Compagnia Solare 2, Compagnia Solare 3 and SPES into the company Solaria Real Estate was carried out on 27 July 2020. In addition, the merger by incorporation of the companies Luna Energia, Sisine Energia, Urbe Cerig, Urbe Solar and Bersolar into the company KT4 was carried out on 26 October 2020. Both mergers have accounting and fiscal effects backdated to 1 January 2020.

Finally, it should be noted that Lunigiana Acque, placed in liquidation on 28 July 2011, was eliminated 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-3), valid for the determination of the tariffs for the years 2020-2023, approved with Resolution no. 580/2019/R/idr (MTI-3) of 30 December 2019, Determination 1/2020-DSIS of 29/06/2020 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 disbursed at the time of or after termination of the employment relationship through defined benefit and defined contribution programmes (including: severance indemnity – TFR, extra months, tariff subsidies, as described in the notes) or other long-term benefits are recognised in the period during which the rights to these accrue. 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.

Expenses deriving from retirement incentives for employees who took part in the "Isopensione" Plan and which meet the criteria defined in the Group's Plan were recognised in a specific Provision. The Group takes the place of the reference national insurance institutions, in particular, the Provision was created to pay pension instalments due to early pensioners, as well as to pay presumed contributions during the period needed to achieve the right to the relative social security payments through the national insurance institutions.

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.

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 sub-

stance, 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.

Right of use

This item contains assets relative to application of international accounting standard IFRS 16, issued in January 2016 and in effect as of 1 January 2019, which replaced the previous standard on leasing, IAS 17 and its interpretations, identifying criteria for recognition, measurement and presentation, as well as the information to be provided with reference to leasing contracts. 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 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 standard introduces the concept of control to the definition used, in particular, 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 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.

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. The Company analyses the CGUs of the Group identified using its procedure, based on the impairment procedure.

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

As a function of the features of the instrument and the business model used for its management, financial assets, which represent debt instruments, are classified in the following three categories: 1) financial assets measured at amortised cost; 2) financial assets measured at fair value through other comprehensive income (hereafter, also OCI), 3) financial assets measured at fair value through profit and loss.

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 comprehensive 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 based on the product of: 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 (“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 (“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 risk management strategy and objectives, 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 incorporate within 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 2020

“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 IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform”

Issued on 26 September 2019, it explains the changes contained in the document “*Reform of the reference indices for the determination of interest rates*” aimed at providing temporary exemptions from the application of certain provisions on hedge accounting for all hedging relationships directly impacted by the reform of benchmark interest rates. Amendments are effective from the financial years beginning on or 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.

“Amendments to References to the Conceptual Framework in IFRS Standards”

Issued on 29 March 2018, it contains amendments to international accounting standards, essentially of a technical and editorial nature. Amendments are effective from the financial years beginning on or after 1 January 2020.

“Amendment to IFRS 16 Leases Covid-19-Related Rent Concessions”

Issued on 28 May 2020, it introduces a practical arrangement aimed at allowing the possibility for the lessee not to consider as amendments to the lease any concessions recognised as a result of Covid-19 (e.g. suspension of rent payments). The lessee may therefore exempt itself from revising numerous contracts and need not redefine the respective lease liabilities by means of a new discount rate since it can treat such changes in a manner that does not involve a lease modification. This expedient, applicable to lessees and not lessors, is effective as of 1 June 2020 and is limited to changes to rent made through 30 June 2021, intended to mitigate the effects of Covid-19.

“Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform”

Issued on 27 August 2020, this introduces a reform for benchmarks used to determine interest rates in order to take into account the consequences of the financial disclosure reform (Regulation EU 2020/34 and the recommendations contained in the Council for Financial Stability Report of July 2014, “*Reforming Major Interest Rate Benchmarks*”) so that companies can continue to comply with provisions, presuming that the existing interest rate benchmarks have not been changed following the reform of inter-bank rates. Companies will apply these changes at the latest starting from the first day of the first financial year beginning on 1 January 2020 or after.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AFTER CLOSURE OF THE YEAR AND NOT ADOPTED IN ADVANCE BY THE GROUP

“IFRS 17 Insurance Contracts”

On 18 May 2017, the IASB issued IFRS 17 “Insurance Contracts” which defines the accounting of insurance contracts issued and reinsurance contracts held. The provisions of IFRS 17, which supersede those currently envisaged in IFRS 4 “Insurance Contracts”, are effective from the financial years beginning on or after 1 January 2021.

“Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9”

On 28 May 2020, the IASB published an extension of the temporary exemption on application of IFRS 9, bringing the date to 1 January 2023, offering the possibility of aligning measurement criteria for financial instruments to the new accounting standard IFRS 17 to measure and recognise insurance contracts. The extension is effective for financial years starting on or after 1 January 2021.

“Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current”

Issued on 23 January 2020, it provides clarifications on the classification of liabilities as current or non-current. Amendments to IAS 1 are effective from the financial years beginning on or after 1 January 2023.

“Amendment to IFRS 3 Business Combinations”

Issued on 24 June 2020, it updates the reference in IFRS 3 to the Conceptual Framework in the revised version, without entailing changes to the provisions of the standard.

“Amendment to IAS 16 Property, Plant and Equipment”

Issued on 24 June 2020, it does not allow deducting the amount received from the sale of goods produced before the asset was ready for use from the cost of the fixed asset. These sales revenues

and related costs are recognised in the Income Statement. Amendments to IAS 16 are effective from the financial years beginning on or after 1 January 2022.

“Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets”

Issued on 24 June 2020, it clarifies which cost items must be considered to assess whether a contract will result in a loss.

“Annual Improvements 2018-2020”

Issued on 24 June 2020, it includes amendments to:

- IFRS 1 “First-time Adoption of International Financial Reporting Standards”, where a subsidiary that applies paragraph D16 of IFRS 1 is allowed to recognise cumulative conversion

differences using the amounts recognised by its parent at the date of transfer of the Parent Company;

- IFRS 9 “Financial Instruments”, which provides clarification on which fees to include in the ten per cent test in section B3.3.6 when assessing whether to eliminate a financial liability;
- IAS 41 “Agriculture”, where, in order to ensure consistency with the requirements of IFRS 13, the paragraph under which entities did not include tax cash flows in the measurement of the fair value of a biological asset using the present value technique is deleted.
- the “Illustrative Examples” accompanying IFRS 16 “Leases”, eliminating “Illustrative Example 13” in order to avoid confusion regarding the treatment of lease incentives due to how the incentives were illustrated in that example.

CONSOLIDATED INCOME STATEMENT

Ref. Note	31/12/2020	Of which related party transactions	31/12/2019	Of which related party transactions	Change
1	Revenue from sales and services		3,205,492		183,648
2	Other revenue and income		173,900		9,607
	Consolidated net revenues	103,822	3,379,392	87,443	193,256
3	Personnel costs		267,651		18,376
4	Costs of materials and overheads		1,986,927		50,896
	Consolidated operating costs	53,743	2,254,577	39,349	69,272
5	Net income/(costs) from commodity risk management		330	99	231
6	Income/(Costs) from equity investments of a non-financial nature		30,319	41,367	(11,048)
	EBITDA	50,079	1,155,463	48,093	113,166
7	Net write-downs (write-backs) of trade receivables		79,442		17,745
8	Depreciation, amortisation and provisions		541,042		83,666
	Operating profit/(loss)	50,079	534,980	48,093	11,756
9	Financial income	1,910	10,046	5,194	(624)
10	Financial costs	0	(98,064)	(407)	8,025
11	Income/(costs) from equity investments		14,243		11,659
	Profit/(loss) before tax	51,989	461,205	52,880	30,816
12	Income taxes		134,648		11,435
	Net profit/(loss)	51,989	326,558	52,880	19,381
	Net profit/(loss) from discontinued operations				
	Net profit/(loss)	51,989	326,558	52,880	19,381
	Profit/(loss) attributable to non-controlling interests		41,609		18,119
	Net profit/(loss) attributable to the Group		284,948	283,686	1,262
13	Earnings (loss) per share attributable to Parent Company's Shareholders				
	Basic		1.33801	1.33208	0.00593
	Diluted		1.33801	1.33208	0.00593
	Earnings (loss) per share attributable to Parent Company's Shareholders, net of treasury shares				
	Basic		1.34063	1.33469	0.00594
	Diluted		1.34063	1.33469	0.00594

Amounts in € thousand

COMPREHENSIVE CONSOLIDATED INCOME STATEMENT

€ thousand	31/12/2020	31/12/2019	Change
Net income for the period	326,558	307,177	19,381
Profit/loss from conversion of Financial Statements expressed in foreign currency	(5,983)	367	(6,349)
Reserve for exchange differences	5,740	(5,299)	11,040
Tax reserve for exchange differences	(1,378)	1,272	(2,650)
Gains/losses from exchange rate difference	4,363	(4,028)	8,390
Effective portion of gains/(losses) on hedging instruments ("cash flow hedges")	2,637	(2,019)	4,656
Tax effect of other gains/(losses) on hedging instruments ("cash flow hedges")	(1,059)	1,108	(2,167)
Profit/loss from the effective portion on hedging instruments net of tax effect	1,578	(910)	2,488
Actuarial gains/(losses) on employee benefits recognised in equity	(4,920)	(6,424)	1,504
Tax effect on the other actuarial profit/(loss) on staff benefit plans	1,416	585	832
Actuarial profit/(loss) on defined benefit pension plans net of tax effect	(3,504)	(5,839)	2,336
Total components of other comprehensive income, net of tax effect	(3,546)	(10,411)	6,865
Total comprehensive income/loss	323,012	296,766	26,246
Total comprehensive income (loss) attributable to:			
Group	282,446	272,932	9,515
Minority interests	40,566	23,834	16,731

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	31/12/2020	Of which with related parties	31/12/2019	Of which with related parties	Change
14	Tangible fixed assets	2,786,645		2,609,485		177,161
15	Real estate investments	2,372		2,431		(58)
16	Goodwill	223,713		182,902		40,810
17	Concessions and rights on infrastructure	2,835,766		2,484,483		351,284
18	Intangible fixed assets	313,232		222,358		90,873
19	Right of use	73,660		63,397		10,263
20	Equity investments in unconsolidated subsidiaries and associates	276,362		268,039		8,323
21	Other equity investments	3,100		2,772		328
22	Deferred tax assets	235,012		237,693		(2,681)
23	Financial assets	38,781	21,156	47,202	26,144	(8,421)
24	Other assets	522,360		380,666		141,694
	NON-CURRENT ASSETS	7,311,004	21,156	6,501,429	26,144	809,575
25.a	Inventories	91,973		57,335		34,638
25.b	Trade receivables	981,509	72,080	1,035,462	99,798	(53,954)
25.c	Other current assets	257,442		212,956		44,486
25.d	Current tax assets	9,618		12,328		(2,710)
25.e	Current financial assets	379,859	143,097	299,212	121,968	80,647
25.f	Cash and cash equivalents	642,209		835,693		(193,484)
25	CURRENT ASSETS	2,362,610	215,177	2,452,987	221,766	(90,376)
	Non-current assets held for sale	0		0		0
	TOTAL ASSETS	9,673,614	236,333	8,954,416	247,910	719,198

Amounts in € thousand

Ref. Note	LIABILITIES	31/12/2020	Of which with related parties	31/12/2019	of which with related parties	Change
	Shareholders' equity					
	Share capital	1,098,899		1,098,899		0
	Legal reserve	129,761		119,336		10,424
	Other reserves	(224,509)		(209,562)		(14,947)
	Retained earnings/(losses)	675,731		562,413		113,318
	Profit (loss) for the year	284,948		283,686		1,262
	Total Group Shareholders' equity	1,964,829		1,854,772		110,058
	Minority interests	358,429		251,938		106,491
26	Total Shareholders' equity	2,323,258		2,106,710		216,548
27	Employee severance indemnity and other defined-benefit plans	122,047		104,613		17,434
28	Provision for risks and charges	156,951		151,418		5,533
29	Borrowings and financial liabilities	4,154,251		3,551,889		602,362
30	Other liabilities	405,799		391,100		14,699
	NON-CURRENT LIABILITIES	4,839,048		4,199,020		640,027
31.a	Financial payables	419,822	133,714	674,364	79,616	(254,542)
31.b	Payables to suppliers	1,627,119	77,230	1,600,263	111,319	26,856
31.c	Tax payables	40,217		11,977		28,240
31.d	Other current liabilities	424,150		362,082		62,068
31	CURRENT LIABILITIES	2,511,308	210,944	2,648,685	190,935	(137,378)
	Liabilities directly associated with assets held for sale	0		0		0
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9,673,614	210,944	8,954,416	190,935	719,198

Amounts in € thousand

CONSOLIDATED STATEMENT OF CASH FLOWS

Ref. Note	31/12/2020	Related parties	31/12/2019	Related parties	Change
Cash flow from operating activities					
	Profit before tax		430,390		30,816
8	Depreciation/amortisation and impairment charges		409,557		88,700
6-7	Write-ups/write-downs		22,862		12,017
28	Change in provisions for risks		5,268		(1,906)
27	Net change in the provision for employee benefits		(10,708)		29,444
	Net financial interest		90,302		(2,284)
12	Income taxes paid		(132,617)		13,193
	Financial flows generated by operating activities before changes	0	815,054	0	169,980
25	Increase/decrease in receivables included in current assets	27,718	(118,892)	(15,816)	140,867
31	Increase/decrease in payables included in the working capital	(34,089)	41,729	(13,180)	(11,030)
25	Increase/decrease in inventories		(7,447)		(20,919)
	Change in working capital	(6,371)	(84,610)	(28,997)	108,918
	Change in other assets/liabilities during the period		39,137		(221,737)
	TOTAL CASH FLOW FROM OPERATING ACTIVITIES	(6,371)	769,581	(28,997)	57,161
Cash flow from investment activities					
	Purchase/sale of tangible fixed assets		(431,036)		(141,276)
	Purchase/sale of intangible fixed assets		(361,740)		27,084
20-21	Equity investments		(43,703)		(60,088)
	Collections/payments deriving from other financial investments	(16,142)	(177,824)	(30,620)	109,361
	Collected dividends	29,848	16,787	16,787	13,061
	Interest income collected	14,990	20,588		(5,598)
	TOTAL CASH FLOW FROM INVESTMENT ACTIVITIES	13,706	(976,928)	(13,833)	(57,457)
Cash flow from financing activities					
29	Repayment of mortgages and long-term loans		(313,642)		(174,104)
29	Provision of mortgages/other debts and medium to long term		500,000		104,900
29-31	Decrease/increase in other financial debts	54,098	(89,136)	78,989	147,967
	Interest expense paid	(102,158)	(109,302)		7,145
	Dividends paid	(93,212)	(73,795)	(73,795)	(19,417)
	TOTAL CASH FLOW FROM FINANCING ACTIVITIES	(39,114)	(85,875)	5,194	66,491
	Cash flow for the period	(25,408)	(293,223)	(37,635)	66,195
	Net opening balance of cash and cash equivalents	835,693	1,068,138		(232,445)
	Cash availability from acquisition	33,544	60,778		(27,234)
	Net closing balance of cash and cash equivalents	642,209	835,693		(193,484)

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
Balance as at 1 January 2020	1,098,899	119,336	363,605	272,932	1,854,772	251,938	2,106,710
Income Statement profit	0	0	0	284,948	284,948	41,609	326,558
Other comprehensive income (loss)	0	0	0	(2,502)	(2,502)	(1,044)	(3,546)
Total comprehensive income (loss)	0	0	0	282,446	282,446	40,566	323,012
Allocation of result for 2019	0	10,424	262,507	(272,932)	0	0	0
Distribution of dividends	0	0	(165,788)	0	(165,788)	(12,141)	(177,929)
Change in scope of consolidation	0	0	0	0	0	78,093	78,093
Other changes	0	0	(6,601)	0	(6,601)	(27)	(6,628)
Balance as at 31 December 2020	1,098,899	129,761	453,724	282,446	1,964,829	358,429	2,323,258

€ 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

As at 31 December 2020 these amounted to € 3,379,392 thousand

and (€ 3,186,136 thousand at 31 December 2019), recording an increase of € 193,256 thousand compared to the previous year:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Revenue from sales and services	3,205,492	3,021,843	183,648	6.1%
Other revenue and income	173,900	164,293	9,607	5.8%
Consolidated net revenues	3,379,392	3,186,136	193,256	6.1%

1. Revenue from sales and services – € 3,205,492 thousand

This item registered a total increase of € 183,648 thousand (+

6.1%) compared to the previous financial year which closed with € 3,021,843 thousand. The composition of the item is shown below.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Revenue from electricity sales and services	1,703,184	1,732,665	(29,481)	(1.7%)
Revenue from gas sales	107,285	93,399	13,886	14.9%
Revenue from electricity incentives	20,739	20,837	(98)	(0.5%)
Revenues from the Integrated Water Service	1,061,682	925,169	136,513	14.8%
Revenue from Overseas Water Services	62,225	46,514	15,711	33.8%
Revenue from biomass transfer and landfill operations	113,880	77,925	35,956	46.1%
Revenue from customer services	110,459	99,461	10,998	11.1%
Connection fees	26,037	25,873	164	0.6%
Revenue from sales and services	3,205,492	3,021,843	183,648	6.1%

Note that in the values for 2019 reclassifications were carried out among “Revenues from the Integrated Water System” and “Revenue from customer services”, in order to better represent the data.

REVENUE FROM ELECTRICITY SALES AND SERVICES

These are equal to € 1,703,184 thousand and are represented as follows:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Electricity and heat generation	8,920	10,023	(1,103)	(11.0%)
Electricity sales	1,309,420	1,352,615	(43,195)	(3.2%)
Transport and metering of energy	376,420	335,936	40,484	12.1%
Energy sales from WtE	2,622	24,265	(21,643)	(89.2%)
Energy from photovoltaic plants	1,936	4,783	(2,847)	n.s.
Co-generation	3,866	4,725	(859)	(18.2%)
Revenue from electricity sales and services	1,703,184	1,732,347	(29,163)	(1.7%)

The main changes concern:

- the decrease in revenues from electricity distribution of € 43,195 thousand due to: 1) the revision of the value recognised for the arrears offsetting mechanism on the protected market (ARERA Resolution, no. 100/2020), as well as effects deriving from the decrease in the number of clients served on the protected market and the update of tariff components for the remuneration of sales established by ARERA Resolution no. 576/; 2) on the Free Market, a 19.3% increase with respect to the previous year, mainly relative to the B2B segment;
- the decrease in revenues from the sale of energy from WtE of € 21,643 thousand, due in particular to the expiry of the CIP6 regime in July 2019 on the San Vittore plant, partly offset by higher volumes of energy sold and lower tariffs;

- the increase in revenues from transport and metering of energy destined for the protected and free markets (+ € 40,484 thousand), mainly deriving from the general equalisation, which shows greater revenues of € 38,871 thousand.

REVENUE FROM GAS SALES

Revenues equal € 107,285 thousand and show an increase of € 13,886 thousand compared to 31 December 2019 due to both the price effect and the quantity-sold effect, to final customers and wholesalers by Acea Energia (+ 25.4 million m³ of gas compared to 2019).

REVENUE FROM ELECTRICITY INCENTIVES

These revenues amount to € 20,739 thousand and show a decrease of € 98 thousand compared to the previous year. The item includes revenues from green certificates: 1) those of Acea Produzione (€ 16,643 thousand) in relation to the energy produced by the Salisano and Orte Station; 2) those of Acea Ambiente (€ 2,144 thousand) for revenues from green certificates deriving from an incentive system from renewable sources of the WTE plants in Terni and San Vittore del Lazio.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Acea Ato 2	649,963	624,061	25,901	4.2%
Acea Ato 5	75,294	72,365	2,929	4.0%
Acea Molise	5,281	4,389	891	20.3%
Gesesa	13,388	12,809	580	4.5%
Gori	201,236	185,868	15,367	8.3%
Acquedotto del Fiora	111,995	25,676	86,319	n.s.
Servizi Idrici Integrati	4,526	0	4,526	n.s.
Revenues from the Integrated Water System	1,061,682	925,169	136,513	14.8%

The increase is mainly due to the change in the scope of consolidation for a total of € 90,845 thousand with reference to AdF, line-by-line consolidated as of October 2019, and to S.I.I., line-by-line consolidated as of November 2020.

The remaining increase is in particular due to the tariff increase determined on the basis of the provisions of the MTI-3 water tariff method, as approved by ARERA Resolution no. 580/2019/R/idr of 27 December 2019, and taking into account the current state of contact with the AGB with particular reference to the new tariff components introduced with MTI-3. Note that as is already indicated in the *Report on Operations*, among the main changes introduced by the new MTI-3 is the elimination of the contractual quality bonus that amounted to € 35,850 thousand in 2019 for Acea Ato 2.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Acea Ambiente	68,164	54,725	13,439	24.6%
Ferrocarr	4,636	0	4,636	n.s.
Cavallari	7,462	0	7,462	n.s.
Aquaser	13,093	14,741	(1,648)	(11.2%)
Multigreen	2,747	0	2,747	n.s.
Iseco	223	234	(12)	(4.9%)
Acque Industriali	9,445	4,618	4,827	104.5%
Bioecologia	2,569	3,607	(1,038)	(28.8%)
Berg	5,542	0	5,542	n.s.
Revenue from biomass transfer and landfill operations	113,880	77,925	35,956	46.1%

Performance in 2020 was influenced by the change in the scope of consolidation for € 20,387 thousand, and for the remaining part by the following main events:

- Acea Ambiente + € 13,439 thousand mainly due to higher revenues for contributions in the Terni and San Vittore plants related to the increase in the tariff component and decrease in total contributions. Revenue for waste recovery also increased due to the volumes processed at the Aprilia, Sabaudia and Monterotondo plants. In 2019 the Monterotondo plant

REVENUES FROM THE INTEGRATED WATER SERVICE

As mentioned in the section of the management report 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. Said revenue amounts in total to € 1,061,682 thousand and shows an increase of € 136,513 thousand (+ 14.8%) compared to the previous year (€ 925,169 thousand).

Details of the breakdown by company are given below.

REVENUE FROM INTERNATIONAL WATER SERVICES

These revenues are equal to € 62,225 thousand and show an increase of € 15,711 thousand compared to the previous year (€ 46,514 thousand as at 31 December 2019). The change derives from the full consolidation of Consorzio Agua Azul from 13 January 2020 for € 12,905 thousand and for the remaining part from the improved performance of Acea Perù for € 6,079 thousand in relation to temporary management of the Lima Nord contract.

REVENUE FROM BIOMASS TRANSFER AND LANDFILL OPERATIONS

These revenues amounted to € 113,880 thousand, up € 35,956 thousand compared to the previous year (€ 77,925 thousand).

The breakdown by company is provided below:

underwent revamping, in 2020 the Sabaudia plant was revamped and its contributions are therefore suspended;

- Aquaser - € 1,647 thousand due to the combined effect of the increase in the applied tariff and the lower quantities;
- Acque Industriali + € 4,827 thousand linked to the increase in sludge disposal due to the greater number of tonnes managed and a reduction in the tariff applied and the decrease in the disposal of liquids due to the reduction in tonnes managed and a decrease in the tariff applied.

REVENUE FROM CUSTOMER SERVICES

These amounted to € 110,459 thousand (€ 99,461 thousand at 31 December 2019) and increased by € 10,998 thousand. The changes can be represented as follows:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Public Lighting – Rome	33,666	40,631	(6,965)	(17.1%)
Work for third parties	64,469	45,164	19,304	42.7%
Inter-company services	4,807	4,769	38	0.8%
Photovoltaic	202	197	5	2.4%
GIP revenue	6,258	6,235	23	0.4%
RIB services to the Municipality of Rome	0	513	(513)	(100.0%)
Change in inventories	1,058	1,952	(894)	(45.8%)
Revenue from customer services	110,459	99,461	10,998	11.1%

The main change is due to the item work for third parties, for greater revenues deriving from the change in the scope of consolidation of € 16,218 thousand (SIMAM contributing € 13,188 thousand), with these increases offset by lower revenues for Public Lighting, due to malfunctions and authorisations not received for new projects (- € 6,956).

due to increases recorded by the consolidation of AdF (+ € 521 thousand) and S.I.I. (+ € 435 thousand), the increase in areti (+ € 1,008 thousand) and Acea Ato 2 (+ € 247 thousand), partially compensated for by the decrease in Acea Energia (- € 1,997 thousand), also due to slowdowns in activities requested by clients during the lockdown.

CONNECTION FEES

These amounted to € 26,037 thousand, recording a slight increase of € 164 thousand compared to 31 December 2019. The change is

2. Other revenues and income – € 173,900 thousand

This item increased by € 9,607 thousand (+ 5.8%) compared to 31 December 2019, when the figure was € 164,293 thousand.

The following table supplies the breakdown of said entry:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Contributions from Entities for Energy Efficiency Certificates	20,907	22,947	(2,039)	(8.9%)
Non-recurring gains	81,985	80,334	1,651	2.1%
Other revenues	16,932	21,225	(4,293)	(20.2%)
Refunds for damages, penalties, collateral	5,416	4,771	645	13.5%
Feed-in tariff	17,229	4,925	12,304	n.s.
Regional grants	8,865	6,776	2,089	30.8%
Income from end users	604	2	601	n.s.
Seconded personnel	407	480	(72)	(15.1%)
Real estate income	2,005	2,099	(94)	(4.5%)
IFRIC 12 margin	17,422	14,795	2,627	17.8%
Gains on asset disposals	172	28	144	n.s.
Recharged cost for company officers	674	653	21	3.2%
Premiums for continuity of service	0	62	(62)	(100.0%)
Revenues for disconnections and connections	1,284	5,196	(3,912)	(75.3%)
Other revenue and income	173,900	164,293	9,607	5.8%

The increase was primarily determined by the following offsetting effects:

- greater revenues paid by the GSE to photovoltaic companies (+ € 12,304 thousand), deriving from acquisitions which occurred between 2019 and 2020;
- increase in the IFRIC 12 margin of € 2,627 thousand following the higher investments with respect to 2019;
- decrease in other revenues, mainly due to the recognition in 2019 of the contingency of € 16,200 thousand due to the Regional Administrative Court's decision which annulled the fine imposed by the Italian Competition Authority, issued on 8 January 2019 and against which an appeal was filed, partially compensated for by the increase in non-existent assets, mainly with regards to Acea Ato 2 and relative to tariff components for the years 2018 and 2019 which were recognised, when the

2020-2021 tariff was prepared, in an amount exceeding that recognised in the respective Financial Statements or which were introduced anew in Resolution 580/2019, which governed tariffs for the Integrated Water Service through MTI-3, in particular the additional component for the cost of sewage sludge disposal and transport.

CONSOLIDATED OPERATING COSTS

As at 31 December 2020 these amounted to € 2,254,577 thousand (€ 2,185,306 thousand at 31 December 2019), recording an increase of € 69,272 thousand (+ 3.2% over the previous year).

The breakdown is as follows:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Personnel costs	267,651	249,275	18,376	7.4%
Costs of materials and overheads	1,986,927	1,936,030	50,896	2.6%
Consolidated operating costs	2,254,577	2,185,306	69,272	3.2%

3. Personnel costs – € 267,651 thousand

€ thousand	31/12/2020	31/12/2019	Change	Change %
Staff costs including capitalised costs	431,688	399,009	32,678	8.2%
Costs capitalised	(164,037)	(149,734)	(14,303)	9.6%
Personnel costs	267,651	249,275	18,376	7.4%

The increase in personnel costs gross of capitalised costs amounted to € 32,678 thousand and was mainly influenced by higher personnel costs recorded in the Water Segment (+ € 21,211 thousand, of which € 15,734 thousand related to consolidation of AdF as of October 2019). There were also increases in the Environment Segment (+ € 5,727 thousand) and in the Overseas Segment (+ € 2,363 thousand), which were also mainly related to the change in the scope of consolidation.

With regard to capitalised costs, there was an increase of € 14,303 thousand primarily driven by the increase in capitalised costs in the Water Segment (+ € 13,115 thousand). The increase stems mainly 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.

End-of-period composition

	31/12/2020	31/12/2019	Change	Change %
Environment Business	577	422	155	36.7%
Commercial and Trading Business	425	467	(42)	(9.0%)
Overseas Business	734	1,202	(468)	(38.9%)
Water Business	3,424	3,174	250	7.9%
Energy Infrastructure Business	1,367	1,353	14	1.0%
Engineering Business	423	293	130	44.4%
Corporate Business	700	665	35	5.3%
Total	7,650	7,576	74	1.0%

Average number of employees

	31/12/2020	31/12/2019	Change	Change %
Environment Business	619	389	230	59.0%
Commercial and Trading Business	373	470	(97)	(20.6%)
Overseas Business	987	814	173	21.2%
Water Business	3,292	3,094	198	6.4%
Energy Infrastructure Business	1,353	1,354	(1)	(0.1%)
Engineering Business	373	281	92	32.9%
Corporate Business	700	668	32	4.7%
Total	7,697	7,070	626	8.9%

4. Costs of materials and overheads – € 1,986,927 thousand

This item shows an overall increase of € 50,896 thousand (+ 2.6%) compared to 31 December 2019.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Electricity, gas and fuel	1,350,634	1,370,098	(19,464)	(1.4%)
Materials	75,316	58,674	16,642	28.4%
Services and contract work	379,293	343,630	35,663	10.4%
Concession fees	64,399	59,214	5,184	8.8%
Cost of leased assets	24,321	22,981	1,340	5.8%
Other operating costs	92,963	81,433	11,530	14.2%
Costs of materials and overheads	1,986,927	1,936,030	50,896	2.6%

Note that the items “Electricity, gas and fuel” and “Services and contract work” at 31 December 2019 present a reclassification carried out to better represent the energy margin.

ELECTRICITY, GAS AND FUEL

This item includes:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Electricity and gas purchases and transportation	1,328,630	1,343,580	(14,950)	(1.1%)
White certificates	16,618	20,881	(4,263)	(20.4%)
Green certificates and CO ₂ rights	5,387	5,638	(251)	(4.5%)
Electricity, gas and fuel costs	1,350,634	1,370,098	(19,464)	(1.4%)

The costs of purchasing and transporting energy decreased by € 14,950 thousand, mainly due to the effect of less electricity being distributed (- 7.6%). This reduction is in line with that recognised in the revenues.

MATERIALS

The cost of materials amounted to € 75,316 thousand and represents the cost of materials used net of capital expenditure, as shown in the table below.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Purchase of materials	157,584	116,351	41,233	35.4%
Change in inventories	(21,156)	(6,169)	(14,987)	n.s.
Change in inventories	136,428	110,182	26,246	23.8%
Costs capitalised	(61,112)	(51,508)	(9,604)	18.6%
Materials	75,316	58,674	16,642	28.4%

The purchases of materials net of inventories and capitalised costs show a € 16,642 thousand increase, mainly attributable to the Water Segment, in particular to Gori for € 9,486 thousand and to the line by line consolidation of AdF for € 1,565 thousand, and finally to the Environment Segment for + € 3,645 thousand, above all due to the changes in the scope of consolidation (+ € 3,406 thousand).

SERVICES AND CONTRACT WORK

These amount to € 379,293 thousand and increased by a total of € 35,663 thousand (the figure was € 343,630 thousand at 31 December 2019). They can be represented as follows:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Technical and administrative services (including consulting and collaborations)	60,890	58,729	2,161	3.7%
Contract work	67,001	57,056	9,946	17.4%
Disposal and transport of sludge, slag, ash and waste	66,935	52,261	14,674	28.1%
Other services	53,154	61,602	(8,448)	(13.7%)
Personnel services	18,089	17,346	743	4.3%
Insurance costs	12,027	10,080	1,947	19.3%
Electricity, water and gas consumption	23,901	29,907	(6,006)	(20.1%)
Internal use of electricity	6,950	6,159	791	12.8%
Intragroup services and otherwise	14,607	2,012	12,595	n.s.
Telephone and data transmission costs	5,985	5,802	183	3.2%
Postal expenses	3,398	3,641	(244)	(6.7%)
Maintenance fees	17,251	11,643	5,608	48.2%
Cleaning, transport and portage costs	6,565	4,308	2,257	52.4%
Advertising and sponsorship costs	11,220	10,826	394	3.6%
Corporate bodies	3,526	2,785	741	26.6%
Meter readings	3,751	4,024	(273)	(6.8%)
Bank charges	2,896	2,984	(88)	(2.9%)
Travel and accommodation expenses	889	2,123	(1,234)	(58.1%)
Seconded personnel	42	(6)	48	n.s.
Printing expenses	216	347	(131)	(37.7%)
Services and contracts	379,293	343,630	35,663	10.4%

The increase is due to a number of items with an opposing sign:

- the change in the scope of consolidation for € 44,817 thousand (of which AdF € 23,888 thousand);
- the increase in costs incurred for disposal and transport of sludge (+ € 5,876 thousand with the same scope), referring in particular to Acque Industriali and Gori;
- the lower costs for other services (- € 15,063 thousand), mainly relative to Gori for € 14,088 thousand.

CONCESSION FEES

Concession fees totalled € 64,399 thousand (+ € 5,184 thousand compared to 31 December 2019) and referred to companies that manage Area Authorities under concession in Lazio and Campania.

The following table shows a breakdown by Company, compared to 2019.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Acea Ato 2	49,805	49,005	800	1.6%
Acea Ato 5	3,551	3,685	(134)	(3.6%)
Gori	2,408	2,413	(4)	(0.2%)
Pescara Distribuzione Gas	2,600	2,275	325	14.3%
Gesesa	380	384	(4)	(1.0%)
AdF	4,811	1,133	3,679	n.s.
Servizi Idrici Integrati	331	0	331	n.s.
Alto Sangro Distribuzione Gas	114	0	114	n.s.
Notaresco Gas	30	0	30	n.s.
Other	369	321	48	15.1%
Concession fees	64,399	59,214	5,184	8.8%

The increase refers mainly to the change in the scope of consolidation for € 4,478 thousand. For other information regarding the concessions, reference should be made to the information in the specific section entitled *Service concession report*.

mainly due to changes in the scope of consolidation. In line with IFRS 16, this item contains costs relating to short-term leases and leases of modest value.

COST OF LEASED ASSETS

This item amounted to € 24,321 thousand, up € 1,340 thousand compared to last year (€ 22,981 thousand at 31 December 2019),

OTHER OPERATING COSTS

These amounted to € 92,963 thousand at 31 December 2020, an increase of € 11,530 thousand. The table below provides details of this item by type:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Taxes and duties	13,270	14,761	(1,491)	(10.1%)
Damages and outlays for legal disputes	10,021	8,871	1,150	13.0%
Contributions paid and membership fees	5,547	4,593	954	20.8%
Losses on receivables	344	231	112	48.5%
General expenses	11,210	14,999	(3,789)	(25.3%)
Contingent liabilities	52,571	37,978	14,594	38.4%
Other operating costs	92,963	81,433	11,530	14.2%

The change is attributable, for € 2,206 thousand, to the change in the scope of consolidation, with the remaining part attributable to Acea Ato 2, referring to: 1) tariff components for the years 2018 and 2019 which were recognised, when preparing the 2020-2021 tariff, in an amount inferior to that recognised in the respective Financial Statements and 2) adjustments made to revenues deriving from lower volumes ascertained with reference to the years 2018 and prior.

At 31 December 2020 these amount to € 330 thousand and represent the net balance of the valuations of derivatives taken out to hedge Acea Energia's trading operations.

5. Net income/(costs) from management of risk commodities – € 330 thousand

6. Income/(costs) from equity investments of a non-financial nature – € 30,319 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.

The breakdown of this item is detailed below:

€ thousand	31/12/2020	31/12/2019	Change	Change %
EBITDA	126,960	144,057	(17,097)	(11.9%)
Amortisation, depreciation, impairment and provisions	(81,649)	(79,586)	(2,063)	2.6%
Financial operations	(3,292)	(7,997)	4,705	(58.8%)
Total profit/(loss) on equity investments	(4)	(5)	1	(13.4%)
Taxes	(11,695)	(15,102)	3,406	(22.6%)
Income from equity investments of a non-financial nature	30,319	41,367	(11,048)	(26.7%)

EBITDA for these companies fell by € 17,097 thousand, mainly as an effect of changes in the scope of consolidation.

The companies' assessments are detailed below:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Publiacqua	10,589	16,268	(5,679)	(34.9%)
Acque Group	12,580	12,301	278	2.3%
Acquedotto del Fiora	0	3,650	(3,650)	(100.0%)
Umbra Acque	2,240	2,142	98	4.6%
Nuove Acque e Intesa Aretina	762	679	83	12.2%
Geal	810	1,182	(373)	(31.5%)
Ingegnerie Toscane	2,438	3,033	(596)	(19.6%)
Ecomed (<i>in liquidation</i>)	(7)	(2)	(5)	250.3%
Servizi Idrici Integrati	602	984	(382)	100.0%
Azul	0	1,130	(1,130)	(100.0%)
Energia	315	0	315	n.s.
Belaria	(8)	0	(8)	n.s.
Total	30,319	41,367	(11,048)	(26.7%)

7. Net write-downs (write-backs) of trade receivables – € 79,442 thousand

This item shows an increase of € 17,745 thousand compared to the previous year. The change in the scope of consolidation accounts for € 2,833 thousand, mainly relative to AdF (€ 2,531 thousand). The rest of the increase mainly refers to areti, as a consequence of the positive recognition the previous year of the effects deriving from the 27 December 2019 issuing of Resolution 568/2019/R/eel which called for the recovery of the portion relative to network tariffs, similar to the model used to recognise uncollected general system charges.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Depreciation	157,778	147,276	10,503	7.1%
Amortisation	336,446	259,649	76,798	29.6%
Impairment charges	4,032	2,633	1,400	53.2%
Depreciation/amortisation	498,257	409,557	88,700	21.7%

The increase is due to the change in the scope of consolidation of € 37,643 thousand, with AdF representing € 20,814 thousand. Also of note is the increase in amortisation and depreciation of areti for € 15,361 thousand, partly due to the acceleration of depreciation (started at year-end 2019) of first generation electrical meters according to the swap plan for the installation of second generation meters.

It should be noted that the item relating to intangible amortisation also includes the effect deriving from the application of IFRS 16,

8. Depreciation, amortisation and provisions – € 541,042 thousand

Compared to 2019, there was an increase of € 83,666 thousand. The details are as follows:

AMORTISATION AND DEPRECIATION

The € 88,700 thousand increase in depreciation and amortisation breaks down as follows:

which as at 31 December 2020 amounted to € 14,253 thousand. The losses in value refer to the write-down of the assets of Acea Ato 2 for € 3,837 thousand.

PROVISIONS

As of 31 December 2020, net sums released due to surplus, appropriation reserves total € 42,785 thousand and are divided by type:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Legal	2,812	4,376	(1,563)	(35.7%)
Taxes	554	721	(167)	(23.1%)
Regulatory risks	5,546	7,329	(1,783)	(24.3%)
Contributory risks	22	417	(395)	(94.7%)
Procurement and supplies	1,948	691	1,257	181.8%
Insurance deductibles	2,829	2,993	(164)	(5.5%)
Other risks and charges	6,199	3,512	2,687	76.5%
Total provision for risks	19,912	20,039	(127)	(0.6%)
Early retirements and redundancies	27,997	27,235	762	2.8%
Post mortem	29	17	12	70.7%
Charges towards others	1,772	6,937	(5,165)	(74.5%)
Total provisions	49,710	54,227	(4,517)	(8.3%)
Release of provisions	(6,925)	(6,408)	(517)	8.1%
Total	42,785	47,819	(5,034)	(10.5%)

The most significant allocations made during the year are appropriations for:

- costs for redundancies and mobility for € 27,997 thousand: this represents the sum necessary to handle the personnel reduction plan through the adoption of a voluntary redundancy and facilitated retirement programs for Group personnel (€ 2,456 thousand) and for provisioning relative to "Isopensione" (€ 25,541 thousand);
- regulatory risks for € 5,546 thousand, of which € 3,378 thousand relating to penalties for continuity of service and € 2,098 thousand relating to Acea Produzione;
- legal risks (€ 2,812 thousand) mainly allocated by the Parent Company (€ 998 thousand);
- other risks for € 6,199 thousand (+€ 2,687 thousand) due to the provision set aside by areti for € 1,574 thousand related to char-

ges for new road cable regulations, € 997 thousand relative to Acea energia for disputes with agents, € 1,311 thousand related to AdF and € 1,772 thousand relative to Gori;

- other charges (€ 1,772 thousand) to cover the differential between costs and revenues linked to areti's EEC obligations for 2020 for € 872 thousand and relative to Acea Energia (€ 900 thousand) mainly to cover commitments to ARERA as a reimbursement to the system for the procedure aimed at ascertaining violations of the regulation of the financial items relating to electricity destined for Vatican City.

Further information is provided in note 27 and in the section *Update on major disputes and litigation*.

9. Financial income – € 10,046 thousand

€ thousand	31/12/2020	31/12/2019	Change	Change %
Interest on financial receivables	352	442	(91)	(20.5%)
Bank interest income	97	162	(66)	(40.4%)
Interest on trade receivables	3,836	8,165	(4,330)	(53.0%)
Interest on other receivables	1,075	1,373	(298)	(21.7%)
Financial income from discounting to present value	5,426	546	4,880	n.s.
Financial income from measurement of fair value hedges	(939)	(308)	(631)	n.s.
Other income	200	289	(89)	(30.8%)
Financial income	10,046	10,670	(624)	(5.9%)

Financial income amounted to € 10,046 thousand, a slight decrease of € 624 thousand compared to the previous year.

10. Financial costs – € 98,064 thousand

€ thousand	31/12/2020	31/12/2019	Change	Change %
Costs (income) on Interest Rate Swaps	6,246	5,213	1,033	19.8%
Interest on bonds	55,577	64,453	(8,876)	(13.8%)
Interest on medium/long-term borrowings	16,841	15,777	1,065	6.7%
Interest on short-term debt	2,115	1,605	510	31.8%
Default interest and interest on deferred payments	1,364	1,241	124	10.0%
Interest cost net of actuarial gains and losses	892	1,592	(700)	(44.0%)
Factoring fees	5,438	5,583	(146)	(2.6%)
Interest on payments by instalment	3	447	(444)	(99.3%)
Discounting charges	4,000	4,299	(299)	(7.0%)
IFRS 16 financial charges	2,726	2,018	708	35.1%
Other financial charges	2,994	2,754	240	8.7%
Interest payable to end users	820	1,031	(211)	(20.4%)
Foreign exchange gains (losses)	(952)	76	(1,028)	n.s.
Financial costs	98,064	106,089	(8,025)	(7.6%)

Financial costs amounted to € 98,064 thousand, down € 8,025 thousand compared to 31 December 2019. The average overall all-in cost of the Acea Group's debt at 31 December 2020 stood at 1.74% against 2.15% in 2019.

With regard to financial costs related to borrowings, the following changes should be noted:

- interest on bond loans fell by € 8,876 thousand compared to 31 December 2019, due to a lack of interest accrued on the bond loan repaid in February 2020, partially offset by interest

on the new issue which also occurred in February 2020, as well as that of May 2019;

- interest on medium/long-term indebtedness increased by € 1,065 thousand mainly due to the full consolidation of AdF, partially mitigated by the repayment of a loan by areti;
- net foreign exchange gains and losses reduced by € 1,028 thousand compared to 31 December 2019.

11. Income and costs from equity investments – € 14,243 thousand

€ thousand	31/12/2020	31/12/2019	Change	Change %
Income from equity investments in associates	14,268	2,592	11,676	n.s.
(Costs) of shares in related companies	(24)	(7)	(17)	n.s.
(Costs) and revenue from shares	14,243	2,585	11,659	n.s.

Revenue from equity investments refers to consolidation according to the net worth method of some Group companies primarily Agua Azul Bogotá (€ 255 thousand). It should also be noted that following the acquisitions in 2019, Business Combination was closed, which led to the recording of income (bargain) based on the acquisition method totalling € 14,012 thousand and mainly in relation to AdF and some companies in the photovoltaic sector.

12. Income tax – € 134,648 thousand

Estimated tax expenses for the period were € 134,648 thousand,

compared to € 123,213 thousand in the same period of the previous year. The breakdown is essentially as follows:

- current taxes: € 149,309 thousand (€ 123,694 thousand at 31 December 2019);
- net deferred tax liabilities/(assets): - € 14,662 thousand (- € 481 thousand at 31 December 2019).

The increase in absolute value of taxes recorded in the period is a direct result of higher pre-tax profit. The table below shows the breakdown of taxes and the correlated percentage weight calculated on consolidated profit before tax.

€ thousand	2020	%	2019	%
Profit before tax from continuing and discontinued operations	461,205		430,390	
Expected tax charge at 27.5% on profit before tax	110,689	24.0%	103,294	24.0%
Permanent differences	(11,279)	(2.4%)	(14,050)	(3.3%)
IRES for the period	99,410	21.6%	89,243	20.7%
IRAP (regional income tax)	35,238	7.6%	33,970	7.9%
Total taxes	134,648	29.2%	123,213	28.6%

The tax rate for the financial year is 29.2% (28.6% at 31 December 2019).

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 thousand as at 31 December 2020. 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 2020 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	31/12/2020	31/12/2019	Change
Net profit attributable to the Group (€/000)	284,948	283,686	1,262
Net profit attributable to ordinary equity holders of the Group (€/000) (A)	284,948	283,686	1,262
Weighted average number of ordinary shares outstanding 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)	1.33801	1.3321	0.0059
diluted (A/C)	1.33801	1.3321	0.0059

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

At 31 December 2020 these amounted to € 9,673,614 thousand

(€ 8,954,416 thousand at 31 December 2019), recording an increase of € 719,198 thousand or 8.0% from the previous year; they are broken down as follows.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Non-current assets	7,311,004	6,501,429	809,575	12.5%
Current assets	2,362,610	2,452,987	(90,376)	(3.7%)
Non-current assets held for sale	0	0	0	n.s.
Total assets	9,673,614	8,954,416	719,198	8.0%

14. Tangible fixed assets – € 2,786,645 thousand

The incidence of the infrastructure used for the distribution and generation of electricity amounts to 81.6% of the tangible fixed assets, € 2,275,254 thousand. The remaining 18.4% refer to:

- facilities belonging to the Environment Segment companies for € 256,430 thousand;
- infrastructures related to the Parent Company for €

96,498 thousand;

- infrastructures related to the Energy Segment for € 110,727 thousand;
- infrastructure related to the Overseas Segment for € 31,820 thousand;
- facilities belonging to the Engineering and Services Area for € 14,355 thousand.

€ 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 31/12/2019	548,506	3,309,698	918,246	162,235	66,097	8,147	5,012,929
Assets destined for sale	0	0	0	0	0	0	0
Investments/acquisitions	22,453	158,657	59,856	23,851	69,049	791	334,656
Disinvestments	(706)	(10,058)	(17,891)	(1,436)	(8,091)	0	(38,182)
Changes in scope of consolidation	1,931	105,630	4,591	2,512	22,593	0	137,257
Other changes	787	(12,763)	(3,176)	(162)	(56,489)	94	(71,710)
Historical cost 31/12/2020	572,969	3,551,165	961,626	187,000	93,160	9,031	5,374,950
Accumulated depreciation at 31/12/2019	(152,544)	(1,801,744)	(315,062)	(129,172)	0	(4,921)	(2,403,444)
Assets destined for sale					0		0
Depreciation/amortisation and impairment charges	(11,689)	(87,580)	(44,699)	(13,165)	0	(587)	(157,720)
Disinvestments	400	450	14,607	1,145	0		16,602
Change in scope of consolidation	(407)	(33,872)	(3,036)	(1,933)	0		(39,248)
Other changes	169	(4,171)	(1,703)	1,210	0	(0)	(4,495)
Accumulated depreciation at 31/12/2020	(164,071)	(1,926,917)	(349,893)	(141,916)	0	(5,508)	(2,588,305)
Net value 31/12/2020	408,899	1,624,248	611,732	45,084	93,160	3,523	2,786,645

Investments increased compared to last year (€ 319,258 thousand at 31 December 2019) and amounted to € 334,656 thousand.

They refer mainly to those made by:

- Areti for € 232,333 thousand for the renewal and upgrading

of the HV, MV and LV grids, work on the primary stations, secondary substations and meters, metering groups and remote control equipment;

- Acea Ambiente for € 17,946 thousand for investments relating

to plant improvements at San Vittore del Lazio, as well as works carried out at the plants in Aprilia and Sabaudia and work at the landfill in Orvieto;

- Acea Produzione for € 14,364 thousand, mainly for work at the Tor di Valle and Montemartini thermal power stations, the requalification work on the substations of the Salisano and Orte Power Stations and the extension and restoration of the district heating network in the territory of Mezzocammino in the south of Rome. The investments made by Acea Solar refer to the construction of photovoltaic plants on both agricultural and industrial soils;
- Acea for € 5,351 thousand for extraordinary maintenance works on the premises used for company activities and for hardware-related investments within the Acea2.0 project.

The change in the scope of consolidation increased tangible fixed assets by € 98,009 thousand and mainly refers to the acquisitions of the period in the Water Segment (€ 79,915 thousand), the Engineering and Services Segment (€ 8,538 thousand) and the Environment Segment (€ 6,699 thousand).

Other changes refer to reclassifications due to the commissioning of assets under construction and disposals and disinvestments of assets.

15. Real estate investments – € 2,372 thousand

Real estate investments primarily include 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 – € 223,713 thousand

At 31 December 2020 goodwill amounted to € 223,713 thousand (€ 182,902 thousand at 31 December 2019).

The change compared to the previous year refers to the recognition of goodwill arising from the consolidation of the companies acquired during 2020 (for more information, please refer to the section on the Business Combination). Goodwill recognised after a business combination is attributed to the individual CGU (the Group has identified as CGUs the individual companies included in the consolidated Financial Statements, with the exceptions of the companies Acea Ambiente SpA, Acea Produzione SpA, Ecogena S.r.l., Solaria Real Estate S.r.l., Trinvolt S.r.l., iFV Energy S.r.l. and KT4 S.r.l. for which the CGUs correspond with the production plants held by these latter). The table below shows the goodwill per CGU aggregated according to the main activity of the companies.

€ thousand	31/12/2019	Acquisitions	Impairments/ revaluations	Other changes	31/12/2020
Integrated Water Service management	0	3,689	0	(938)	2,751
Network management	792	7,322	0	(174)	7,939
Sale of electricity and gas	46,982	1,433	0	0	48,414
Intercompany services	93	0	0	1	94
Renewable energy plants	101,774	2,218	0	(9,225)	94,767
Waste-to-energy and composting plants	11,138	0	0	0	11,138
Liquid waste treatment and sludge disposal	6,033	(1,104)	0	(205)	4,724
Overseas	(1)	5,556	0	1	5,556
Plastic and paper recycling services	16,091	14,901	0	6	30,998
Engineering services	0	17,331	0	0	17,331
Goodwill	182,901	51,346	0	(10,535)	223,713

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 application of the financial method for determining the recoverable value and the subsequent comparison with the respective accounting values, therefore entailed, for each CGU subject to impairment testing, estimating the post tax WACC, the value of operating cash flows taken from the Business Plan approved by the Board of Directors (VO), updated when necessary, to take into account significant events occurring between the date of approval for the business plan and that of the Financial Statements by the Acea SpA Board of Directors, and the value of the Terminal Value (TV) and, in particular, the growth rate used to project flows beyond the plan horizon, the value of the net financial position (NFP) and any surplus assets/liabilities (SA).

The main assumptions which determined cash flows and test results were the following:

- 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 pur-

chased on the Free Market were developed on the basis of business considerations consistent with the energy scenario developed in the business plan;

- the natural evolution of the Group's costs over the course of the plan was developed by formulating forward looking hypotheses based on the combination.

Terminal Value is calculated:

- for Acea Produzione (Energy Infrastructure – Generation Area): considering the contribution to the cash flows of the various plants until the end of the hydroelectric concessions and the useful life of the plants;
- for the Environment and Overseas Segments, respectively, considering the residual value corresponding to the net invested capital at the end of the plants' useful life and of the concession;
- for areti (Energy Infrastructure Segment): 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 and net working capital at the end of the concession;
- for the Commercial and Trading Segment normalised cash flows were estimated with a steady state hypothesis without real growth.

Finally, the flows determined as above were discounted using the post-tax WACC determined using an unconditional approach or

using the regulatory WACC for regulated business. Given the impacts of Covid-19 and the consequent economic policies adopted by central banks to limit the impacts of the pandemic, which created a significant reduction in interest rates, especially during the second half of 2020, it was decided to lengthen the observation

period so as to “neutralise” this reduction. Consequently, the WACCs are substantially in line with those used for the previous impairment test.

Below the assumptions used in the tests and estimates for Terminal Value are summarised:

Main activity	Recoverable value	WACC	Terminal Value	Cash flow period
Integrated Water Service management	value in use	5.2%	NIC at the end of the concession, including the Regulatory Asset Base (RAB)	End of the concession
Network management	value in use	6.3%	Regulatory Asset Base (RAB)	Until 2024
Sale of electricity and gas	value in use	5.8%	Perpetuity without real growth	
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	5.2%	NIC/perpetuity at the end of the plants' useful life	Useful life of plants/end of concession
Waste-to-energy and composting plants	value in use	5.2%	NIC at the end of the plants' useful life	Plants' useful life
Liquid waste treatment and sludge disposal	value in use	5.2%	NIC at the end of the plants' useful life	Plants' useful life
Engineering and Services	value in use	5.2%	NIC at the end of the plants' useful life	End of Water Segment facilities concession
Overseas	value in use	6.4%/11%	NIC at the end of the concession	End of the concession
Plastic recycling services	value in use	5.2%	NIC at the end of the plants' useful life	Plants' useful life

To support the analysis deriving from the test, sensitivity analysis was done to identify the impact on recoverable values of goodwill based on variations in specific assumptions, so as to identify the main break-even assumptions. Based on this analysis, hypotheses regarding changes in discount rates, growth rates or a reduction in profitability were found to be unrealistic and/or immaterial with the exception of the CGUs relative to Acquedotto del Fiora, Acea Produzione, Solaria Rea Estate, Marche Solar and PF Power. With reference to Acea Ato 5, note that on 10 March 2021, the Conference of Mayors for Optimal Territorial Area Authority no. 5 – Southern Lazio (hereafter, OTAA 5), approved the Tariff Structure for the regulatory period 2020-2023 with Resolution 1/2021. This is in contrast with the tariff adjustment request, prepared by the Operator pursuant to art. 5, para. 5.5 of Resolution ARERA 580/2019/R/idr, containing the regulatory framework for the 2020-2023 third regulatory period and showing significant differences for the 2020-2023 period, with reference to operating costs and the tariff multiplier.

With reference to operating costs note that the lack of recognition by OTAA 5 of the operating costs suffered by the Operator, documented in the requests presented during the preparatory work for the tariff structure, definitively formalised by the Operator in the tariff update request sent on 15 December 2020, was not adequately justified and technically represented in the Technical Report issued by OTAA 5 and accompanying its tariff proposal. Hence at present the Operator is not aware of the reasons these

costs were excluded from the tariff recognition approved by OTAA 5 on 10 March 2021.

Relative to the tariff multiplier note that the Tariff Structure approved by OTAA 5 established a tariff multiplier with the following problems:

- it does not indicate specific invoicing schedules to recover previous adjustments equal to € 101 million;
- the amount of adjustments inserted by OTAA 5 in the Economic Financial Plan is not included in the formula which determines the tariff multiplier for the relevant years (2023-2024);
- the reduction in operating costs which occurred in years for which Acea Ato 5 already suffered the relative charge (costs in the Financial Statements 2018-2019, basis for tariff determination 2020-2023), leads to a financial loss of the same amount, as it is necessary to apply a tariff change, for the respective years, less than that applied as of 1 January 2020.

As a result of the approval of the 2020-2023 tariff provisions, the Directors of Acea Ato 5 acknowledged a financial discrepancy significant enough to raise serious doubts about the subsidiary as a going concern.

In this regard and in light of the forthcoming approval of the subsidiary's draft annual Financial Statements, the Company Directors launched a review of the previously approved 2021 budget and the related 2020-2024 Plan in order to implement all the appropriate measures to re-establish the financial stability needed to confirm the assumption of the business as a going concern.

The objectives of these actions include, among other things:

- compliance with payment schedules – in terms of the previous debt position, already at the end of 2020 the company had signed repayment plans for previous debts, agreeing to payments over timeframes exceeding 12 months with the counterparties (both third parties and infragroup);
- intensifying actions intended to reduce collection times and to improve the collection percentage for receivables recognised in the Financial Statements;
- pursuing new short term credit lines to support working capital and, therefore, day to day operations;
- adjusting investments so as to guarantee both continuity of service and financial sustainability for the commitments that the company may take on;
- reducing operating costs proportionally to lower revenues coming from the Economic Financial Plan approved by the OTAA 5 Conference of Mayors;
- possible activation of initiatives which can be implemented in areas deemed expedient to obtain an adjustment of tariffs.

Additionally, given the various variables which affect the Acea Ato 5 economic financial plan, sensitivity analysis was done based on

whether or not the efficiency objectives are achieved, as established in the subsidiary's new business plan, and on whether or not the economic financial rebalancing request is granted (this is based on the tariff proposal submitted by the company, but not recognised by OTAA 5). Below are the results of the sensitivity analysis, noting that the "base case" for the impairment test coincides with the upper left section of the table, which foresees 100% achievement of cost savings objectives and no benefit deriving from the actions the Company intends to undertake to obtain a tariff adjustment. This scenario was prudentially used as the base case for the impairment test considering only the elements of improvement which are under the company's control (cost savings) and not those which ultimately depend upon decisions and factors external to the company (tariff adjustment). Note that this structure does not in any reflect an assessment of the likelihood of a tariff adjustment being recognised, which is actually deemed probable in consideration of the incompatibility of the financial imbalance caused to the Operator by the new tariff structure with respect to the current legal and regulatory framework, but is only functional to the execution of the impairment test in compliance with that established under IAS 36:

**Achievement of target cost efficiency
(100% = € 6.0 million)**

€ thousand	100%	90%	80%	70%	67%	60%	50%	40%	
0%	753	(2,828)	(6,409)	(9,989)	(11,183)	(13,570)	(17,151)	(20,732)	
20%	1,882	(1,699)	(5,279)	(8,860)	(10,054)	(12,441)	(16,002)	(19,603)	
Target on tariff revision (100% = € 55.0 million)	40%	5,522	1,942	(1,639)	(5,220)	(6,414)	(8,801)	(12,382)	(15,962)
	61%	11,942	8,361	4,780	1,199	6	(2,832)	(5,962)	(9,543)
	80%	20,335	16,754	13,174	9,593	8,399	6,012	2,431	(1,150)
	100%	31,508	27,927	24,346	20,765	19,572	17,185	13,604	10,023

17. Concessions and rights on infrastructure – € 2,835,766 thousand

This item mainly refers to the Water Services and essentially includes:

- the values of concessions received from the Municipalities (€ 159,438 thousand);
- the overall amount of all tangible infrastructures for the management of water services (€ 2,642,451 thousand), in accordance with IFRIC 12.

Concessions refer for € 95,494 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 OTA 2. The balance is completed by the thirty-year concession for the management of the Integrated Water Service of the city of San Pedro Sula in Honduras for a total amount of € 6,595 thousand and the Consorcio Agua Azul for € 12,436 thousand.

Capital expenditure for the period relating to **Infrastructure rights** amounted to € 416,144 thousand and mainly refers to:

- Acea Ato 2 for € 310,827 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 € 36,630 thousand for the replacement, maintenance and expansion of water supplies and sewerage pipes and of water treatment plants;
- Gori for € 47,053 thousand, for the replacement of the water pipelines as well as for the extraordinary maintenance of the works for the water and sewerage service.

The item "**Other changes**" mainly comprises reclassifications for the commissioning of the assets.

18. Intangible fixed assets – € 313,232 thousand

The item has a net book value as at 31 December 2020 of € 313,232 thousand and can be represented as follows:

€ thousand	Patent rights	Other intangible fixed assets	Fixed assets under construction	Total intangible fixed assets
31/12/2019	150,843	41,756	29,759	222,358
Depreciation/amortisation and impairment charges	(76,093)	(23,360)	(90)	(99,543)
Investments/acquisitions	83,702	48,315	24,152	156,169
Disinvestments	(363)	(140)	(487)	(989)
Changes in scope of consolidation	2,829	28,268	(2,299)	28,798
Other changes	10,391	6,138	(10,090)	6,439
Net value 31/12/2020	171,309	100,978	40,945	313,232

The increase over the previous year, amounting to € 90,874 thousand, arises from capital expenditure incurred during the period (€ 156,169 thousand), net of amortisation and reductions in value (€ 99,543 thousand) and reclassifications.

Investments for the period are mainly attributable to:

- Areti for € 50,227 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;
- Acea Energia for € 42,074 thousand for the cost of acquiring new customers in accordance with IFRS 15 (€ 24,757 thousand), IT implementation projects (€ 13,593 thousand) and cloud licences on which the new Customer Relationship Ma-

agement system (€ 3,990 thousand) is being developed;

- the Parent Company for € 23,123 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 – € 73,660 thousand

This item includes rights to use the assets of others which are recognised as leased assets and amortised over the duration of the contracts in line with the IFRS 16 international standard. As at 31 December 2020 the net book value of these assets is € 73,660 thousand and the nature of these assets can be represented as follows:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Land and buildings	57,362	48,655	8,707	17.89%
Cars and motor vehicles	4,215	5,005	(789)	(15.77%)
Machinery and equipment	9,898	7,345	2,553	34.76%
Distribution cabins	1,999	2,176	(176)	(8.11%)
Other	186	217	(31)	(14.30%)
Total	73,660	63,397	10,263	16.19%

The book value of the assets consisting of the right of use as at 31 December 2020 for each class of underlying asset and the related changes in the year are shown below:

€ thousand	Land and buildings	Cars and motor vehicles	Machinery and equipment	Distribution cabins	Other	Total
Opening balances	48,655	5,005	7,345	2,176	217	63,397
Acquisitions	11,152	104	2,234	0	0	13,489
New contracts	14,016	2,320	3,159	71	0	19,567
Remeasurement	(7,354)	76	(1,183)	(51)	(29)	(8,540)
Derecognition	0	0	0	0	0	0
Reclassification	3	(129)	0	0	126	0
Depreciation/ amortisation	(9,110)	(3,161)	(1,657)	(197)	(128)	(14,253)
Total	57,362	4,215	9,898	1,999	186	73,660

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 unconsolidated subsidiaries and associates – € 276,362 thousand

Company name	31/12/2019	Changes in scope of consolidation	Gains/ losses from valuation of Shareholders' equity	Decrease for dividends	Currency translation differences	Changes with direct effect on Shareholders' equity	OCI	Other changes/ reclassifications	31/12/2020
Acque	80,002	0	11,751	(896)	0	0	(312)	0	90,545
Acque servizi	4,362	0	828	0	0	0	(81)	0	5,110
Consorcio Agua Azul	7,981	(7,981)	0	0	0	0	0	0	0
Geal SpA	7,968	0	810	(960)	0	0	(6)	0	7,812
Intesa Aretina	507	0	(102)	(452)	0	0	0	48	0
Nuove Acque	11,988	0	864	0	0	0	6	0	12,858
Publiacqua	115,756	0	10,589	(14,912)	0	0	(62)	0	111,371
Servizi Idrici Integrati	8,046	(8,648)	602	0	0	0	0	0	0

(follows)

Company name	31/12/2019	Changes in scope of consolidation	Gains/ losses from valuation of Shareholders' equity	Decrease for dividends	Currency translation differences	Changes with direct effect on Shareholders' equity	OCI	Other changes/reclassifications	31/12/2020
Umbra Acque	17,075	0	2,240	0	0	0	20	0	19,334
Ingegnerie Toscana	11,586	0	2,438	(652)	0	0	(15)	0	13,357
Energia	0	24,530	315	(11,976)	0	0	0	0	12,869
Other equity investments	2,769	6	240	0	68	0	0	23	3,106
Equity investments	268,039	7,908	30,575	(29,848)	68	0	(450)	71	276,362

The main changes that occurred during the period refer primarily to the valuations of the companies consolidated using the equity method, which have a positive impact on the Income Statement for a total of € 30,575 thousand. These valuations are mainly reflected in the item "Income/(costs) from equity investments of a non-financial nature" and the rest in the item "Income/(costs from

equity investments". Note that the decrease for distribution of dividends totalling € 29,848 thousand. The change in the scope of consolidation (+ € 7,908 thousand) refers to the equity method consolidation of Energia (+ € 24,530 thousand) net of the line by line consolidation of Consorcio Agua Azul (- € 7,981 thousand) and S.l.l. (- € 8,648 thousand).

31/12/2020

€ thousand	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Valuation of companies using the equity method	NFP
Acque	220,854	35,026	(124,786)	(37,410)	(78,282)	14,023	(88,598)
Intesa Aretina	11,866	375	0	(200)	0	1,350	205
Belaria	4,134	2,857	(6,956)	(43)	0	(8)	(4,124)
Ecomed	3	373	(20)	(419)	(0)	(7)	163
Energia	4,905	1,428	0	(498)	(1,431)	315	720
Geal	18,320	6,858	(10,783)	(6,084)	(8,884)	836	(4,900)
Ingegnerie Toscana	1,608	10,893	(668)	(4,649)	(12,276)	2,438	916
Nuove Acque	17,932	5,141	(8,845)	(2,130)	(9,108)	864	(4,377)
Publiacqua	222,943	51,467	(112,541)	(48,585)	(104,352)	11,854	(69,947)
Acque Servizi	774	7,511	(798)	(3,288)	(12,462)	828	522
Umbra Acque	63,919	15,084	(23,739)	(37,346)	(35,214)	2,725	(21,006)
Total	567,259	137,013	(289,135)	(140,652)	(262,007)	35,219	(190,426)

31/12/2019

€ thousand	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Valuation of companies using the equity method	NFP
Azul	4,423	3,010	(78)	(174)	(3,409)	1,130	2,665
Intesa Aretina	11,192	381	0	(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)	0	(2)	163
Geal	16,887	5,220	(9,535)	(4,139)	(9,647)	1,182	(3,957)
Ingegnerie Toscana	4,924	13,321	(3,018)	(7,108)	(14,284)	3,033	(3,302)
Acque Servizi	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)
Servizi Idrici Integrati	22,260	11,638	(8,956)	(16,783)	(12,078)	984	(9,440)
Umbra acque	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)

21. Other equity investments – € 3,100 thousand

These total € 3,100 thousand (they were € 2,772 thousand at 31 December 2019) and are composed of investments in Shareholder securities that do not represent control, association or joint control.

22. Deferred tax assets – € 235,012 thousand

At 31 December 2020, deferred tax assets, net of deferred tax liabilities, amounted to € 235,012 thousand (€ 237,693 thousand at 31 December 2019).

Changes in deferred tax assets are essentially due to: 1) € 28,654 thousand for the provision for tax risks (€ 27,440 thousand as at 31 December 2019); 2) € 135,217 thousand to the amortisation/depreciation of tangible and intangible assets (€ 125,925 thousand as at 31 December 2019); 3) € 83,339 thousand for the impairment of receivables (€ 81,586 thousand as at 31 December 2019); 4) € 12,362 thousand to defined benefit and defined contribution plans (€ 13,413 thousand as at 31 December 2019); 5) € 9,923

thousand to fair value of commodities and other financial instruments (€ 8,599 thousand as at 31 December 2019).

The deferred taxes allocation fund includes in particular the deferred taxes tied to differences existing between the economic-technical amortisation portions applied to depreciable assets and tax portions. Uses in the period totalling € 13,285 thousand and allocations amounting to € 7,940 thousand contributed to this item.

The following table details the changes in this item:

€ thousand	2019	Changes in 2020						2020
	Balance	Changes in scope of consolidation	Adjustments/reclassifications	Changes in Shareholders' equity	Uses	Rate adjustment	IRES/IRAP provisions	Balance
Prepaid taxes								
Tax losses	680	0	(293)	334	(320)	0	0	401
Remuneration of BoD members	20	0	0	0	(20)	0	42	42
Provisions for risks and charges	27,440	0	53	0	(11,556)	0	12,717	28,654
Impairments of receivables and equity investments	81,586	0	(20)	605	(6,617)	0	7,784	83,339
Depreciation/amortisation	125,925	654	(14)	458	(8,336)	0	16,530	135,217
Defined benefit and defined contribution plans	13,413	109	(110)	691	(2,101)	0	361	12,362
Tax assets on consolidation adjustments	0	9	(9)	0	0	0	9	9
Fair value commodities and other financial instruments	8,599	0	5	1,393	(306)	0	232	9,923
Others	56,182	3,045	1,919	(3,487)	(8,810)	0	9,709	58,558
Total	313,845	3,817	1,532	(6)	(38,066)	0	47,383	328,505
Deferred taxes								
Depreciation/amortisation	50,373	0	9,195	4,432	(9,979)	0	6,980	61,000
Defined benefit and defined contribution plans	717	(101)	151	(470)	(70)	0	(53)	174
Fair value commodities and other financial instruments	2,967	0	0	1,362	(196)	0	0	4,133
Others	22,095	3,459	4,699	(41)	(3,039)	0	1,013	28,186
Total	76,152	3,358	14,044	5,283	(13,285)	0	7,940	93,493
Net	237,693	459	(12,512)	(5,289)	(24,781)	0	39,443	235,012

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.

22. Non-current financial assets – € 38,781 thousand

These amount to € 38,781 thousand (€ 47,202 thousand at 31 December 2019) and show a decrease of € 8,421 thousand, mainly due to the consolidation of S.I.I., which led to the elimination of the Umbriadue receivable of € 10,916 thousand.

The remaining portion refers to receivables due from Roma Capitale for investments in the Public Lighting service, such as systems improvements, 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.

23. Other non-current assets – € 522,360 thousand

Other non-current assets at 31 December 2020 are composed as follows:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Receivables due from the State	0	92	(92)	(100.0%)
Advances and deposits	1,672	1,157	515	44.5%
Other receivables, receivables from subsidiaries	1,809	394	1,415	n.s.
Long-term receivables for tariff adjustments	387,803	277,522	110,281	39.7%
Long-term receivables for regulatory lag	117,108	91,111	25,997	28.5%
Accrued income and prepayments	13,968	10,391	3,578	34.4%
Other non-current assets	522,360	380,666	141,694	37.2%

This item also includes long-term receivables for tariff adjustments for € 387,803 thousand (€ 277,522 thousand at 31 December 2019) of the water companies while € 117,108 thousand

(€ 91,111 thousand at 31 December 2019) is the long-term portion of the receivables registered in areti for regulatory lag.

24. Current assets – € 2,362,610 thousand

€ thousand	31/12/2020	31/12/2019	Change	Change %
Inventories	91,973	57,335	34,638	60.4%
Trade receivables				
Receivables from customers	934,174	935,082	(907)	(0.1%)
Receivables from Parent Company	38,718	86,745	(48,027)	(55.4%)
Receivables from subsidiaries and associates	8,617	13,636	(5,020)	(36.8%)
TOTAL TRADE RECEIVABLES	981,509	1,035,462	(53,954)	(5.2%)
Other current receivables and assets	257,442	212,956	44,486	20.9%
Current financial assets	379,859	299,212	80,647	27.0%
Current tax assets	9,618	12,328	(2,710)	(22.0%)
Cash and cash equivalents	642,209	835,693	(193,484)	(23.2%)
Current assets	2,362,610	2,452,987	(90,376)	(3.7%)

24.a – Inventories

Inventories amounted to € 91,973 thousand (€ 57,335 thousand at 31 December 2019) and increased by € 34,638 thousand, due to the change in the scope of consolidation for € 7,129 thousand (mainly SIMAM for € 6,711 thousand), while the remaining increase derives from areti (+ € 17,763 thousand).

24.b – Trade receivables

These amounted to € 981,509 thousand, recording a decrease of € 53,954 thousand compared to 31 December 2019, when the figure was € 1,035,462 thousand.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Trade receivables	934,174	935,082	(907)	(0.1%)
Receivables from the Parent Company	38,718	86,745	(48,027)	(55.4%)
Receivables from subsidiaries and associates	8,617	13,636	(5,020)	(36.8%)
Total trade receivables	981,509	1,035,462	(53,954)	(5.2%)

Trade receivables

These amounted to € 934,174 thousand, recording an increase of € 907 thousand compared to 31 December 2019.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Receivables due from end users for bills issued	382,956	347,984	34,971	10.0%
Receivables due from end users for bills to be issued	411,623	445,000	(33,378)	(7.5%)
Total receivables due from end users	794,578	792,985	1,594	0.2%
Receivables from other customers	139,536	142,037	(2,501)	(1.8%)
Other current receivables and assets	60	60	0	n.s.
Total receivables	934,174	935,082	(907)	(0.1%)

Receivables are shown net of the provision for doubtful receivables, which at 31 December 2020 amounted to € 639,997 thousand and decreased by € 11,530 thousand compared to the previous year, mainly due to the effect of uses for the period and lower provisions due also to the effects of the sale of non-per-

forming receivables, which amounted to € 76,150 thousand at 31 December 2020.

The performance of receivables, both gross and net of the provision for the impairment of receivables, is shown below.

€ million	31/12/2020			31/12/2019			Change %		
	Gross receivables (a)	Provision for write-downs (b)	Net receivables	Gross receivables (c)	Provision for write-downs (d)	Net receivables (a)-(c)	Gross receivables (b)-(d)	Provision for write-downs (b)-(d)	Net receivables
Environment	59,713	(3,111)	56,601	63,378	(4,531)	58,847	(3,666)	1,420	(2,246)
Commercial and Trading	413,104	(222,102)	191,002	466,857	(279,803)	187,054	(53,753)	57,701	3,948
Water	826,276	(301,195)	525,081	799,570	(268,259)	531,311	26,706	(32,935)	(6,230)
Overseas	23,666	(15,846)	7,820	19,905	(13,639)	6,266	3,762	(2,207)	1,555
Energy Infrastructure	240,466	(94,551)	145,915	232,715	(83,332)	149,383	7,752	(11,219)	(3,468)
Engineering and Services	7,925	(1,068)	6,857	2,322	(909)	1,413	5,602	(159)	5,443
Parent Company	3,022	(2,124)	898	1,860	(1,053)	808	1,162	(1,071)	90
Total	1,574,171	(639,997)	934,174	1,586,608	(651,527)	935,082	(12,437)	11,530	(907)

Environment

These totalled € 56,601 thousand, down by € 2,246 thousand compared to 31 December 2019. The decrease refers to the Acea Ambiente receivables which fell by € 9,847 thousand, partially offset by the increase due to the change in the scope of consolidation for € 8,838 thousand (in particular Cavalari, + € 3,692 thousand and Ferrocarril, + € 3,481 thousand).

Commercial and Trading

Receivables in this segment amounted to € 191,002 thousand and are primarily generated by the sale of electricity to the protected and free markets and by gas sales. The increase compared to 31 December 2019 was € 3,948 thousand, mainly due to Umbria Energy for € 5,356 thousand, partially offset by Acea Energia for € 1,522 thousand.

During 2020, Acea Energia's receivables were assigned without recourse for a total amount of € 314,247 thousand.

Water

These totalled € 525,081 thousand, recording a decrease of € 6,230 thousand compared to 31 December 2019. The decrease is attributable to Acea Ato 2 for € 39,464 thousand and to Gori for € 11,832 thousand, partially compensated for by the consolidation of S.I.I. for € 31,788 thousand.

During 2020, Acea Ato 2 receivables were assigned without recourse for a total of € 328,801 thousand, of which € 23,873 thousand due from the public administration, Acea vAto 5 receivables for € 2,656 thousand, of which € 410 thousand due from the public administration and Gori receivables for € 6,344 thousand.

Overseas

These totalled € 7,820 thousand and increased compared to 31 December 2019 by € 1,555 thousand, mainly due to the consoli-

ation of Consorcio Agua Azul (+ € 958 thousand) and Consorcio Acea (+ € 509 thousand).

Energy Infrastructure

This amounts to € 145,915 thousand, with a decrease of € 3,468 thousand with respect to 31 December 2019, mainly attributable to areti (- € 6,783 thousand), partially compensated for by Solaria Real Estate (+ € 4.9 million).

In 2020, areti receivables totalling € 429,899 thousand were transferred pro-soluto, € 160,427 thousand to the Public Administration.

Engineering and Services

These totalled € 6,857 thousand, an increase compared to 31 December 2019 of € 5,443 thousand, mainly due to the consolidation of SIMAM (+€ 5,628 thousand).

Parent Company

These totalled € 898 thousand, recording an increase of € 90 thousand compared to 31 December 2019.

Relations with the Parent Company Roma Capitale

As regards relations with Roma Capitale, the net balance at 31 December 2020 was a negative € 28,586, compared to the previous balance of € 33,660 thousand at 31 December 2019.

The main reason for the decrease in the net credit/debit balance is the recognition of dividends accrued during financial year 2019 for € 86,670 thousand, which have not yet been paid nor offset.

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	31/12/2020	31/12/2019	Change	Change %
Receivables	192,729	234,898	(42,169)	(18.0%)
Payables (including dividends)	(221,316)	(201,239)	(20,077)	10.0%
Balance (receivables – payables)	(28,586)	33,660	(62,246)	(184.9%)

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

Amounts due from Roma Capitale

€ thousand	31/12/2020	31/12/2019	Change
Utility receivables	42,036	90,567	(48,531)
Provisions for impairment	(9,348)	(9,343)	(5)
Total receivables from users	32,688	81,224	(48,536)
Receivables for water works and services	2,320	2,484	(164)

(follows)

Amounts due from Roma Capitale

€ thousand

	31/12/2020	31/12/2019	Change
Receivables for water works and services to be invoiced	1,818	1,461	357
Contributions	0	0	0
Provisions for impairment	(1,897)	(1,897)	0
Receivables for electrical works and services	4,073	3,839	233
Receivables works and services - to be billed	43	6	37
Provisions for impairment	(326)	(326)	0
Total receivables for works	6,030	5,567	463
Total trade receivables	38,718	86,791	(48,074)
Financial receivables for Public Lighting services billed	129,336	138,798	(9,462)
Provisions for impairment	(30,152)	(30,152)	0
Financial receivables for Public Lighting services to be billed	65,033	39,195	25,837
Provisions for impairment	(21,960)	(14,960)	(7,000)
M/L term financial receivables for Public Lighting services	11,756	15,227	(3,471)
Total Public Lighting receivables	154,012	148,107	5,905
Total Receivables	192,729	234,898	(42,169)

Payables due to Roma Capitale

€ thousand

	31/12/2020	31/12/2019	Change
Electricity surtax payable	(15,249)	(15,251)	1
Concession fees payable	(62,202)	(96,412)	34,209
Other payables	(11,013)	(10,109)	(904)
Dividend payables	(132,851)	(79,468)	(53,383)
Total payables	(221,316)	(201,239)	(20,077)
Net balance receivables payables	(28,586)	33,660	(62,246)

The main reason for the decrease in the net credit/debit balance is the recognition of dividends accrued in financial year 2019.

The change in receivables and payables is due to the accrual of the period and the effects of offsets/revenues, summarised below:

- February 2020: compensation: receivables for € 10,463 thousand relating to the Public Lighting service for 2018 fees and 2016-2018 pro-rata amounts offsetting Acea's share dividends for the year 2018;
- March 2020: compensation: receivables for € 20,362 thousand relating to water services for the years 2017-2018 offsetting the Acea Ato 2 concession fee;
- June 2020: compensation: receivables for € 2,108 thousand relating mainly to water services for water fountains for the years 2015-2018 offsetting the Acea Ato 2 concession fee;
- September 2020: compensation: receivables for € 22,824 thousand relating to the Public Lighting service for 2019 fees and pro rata amounts, offsetting Acea's share dividends for the year 2018;
- September 2020: compensation: receivables for € 154,603 thousand relating to water services for the year 2019 offsetting the Acea Ato 2 concession fee;
- November 2020: collection: € 396 thousand for receivables of various kinds referred mainly to Acea;
- December 2020: compensation: receivables for € 24,407 thousand relating to water services for the year 2019 offsetting the Acea Ato 2 concession fee;
- December 2020: collection: € 32,018 thousand for water user receivables for the year 2020.

Financial receivables increased by € 5,905 thousand compared to the previous period, to be attributed to the combined effect of: 1) offsetting of financial receivables in February and September (as noted above), and 2) accrual of receivables related 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.

As regards payables, in the period there was an increase of € 20,077 thousand. The main changes are listed below:

- recognition of the payable for Acea's share dividends accrued in 2019 ad € 84,717 thousand, as resolved by the Shareholders' Meeting in May 2020;
- inclusion of the debt for Acea Ato 2 shareholding dividends accrued in 2019 equal to € 1,953 thousand;
- registration of the portion accrued in the period for the concession fee of Acea Ato 2 of € 25,272 thousand;
- zeroing of the Acea Ato 2 concession fee for 2016 due to offsets for the period for € 27,746 thousand;
- decrease in the payable for Acea's share dividends for 2018 of € 33,286 thousand following the payment made through offsetting in February;
- decrease in the Acea Ato 2 concession fee for 2017 of € 16,327 thousand following payment through offsets;
- decrease in the Acea Ato 2 concession fee for 2018 of € 21,407 thousand following payment through offsets.

We can also inform you that in January 2021 the Acea Ato 2 concession fee was also paid for a total of € 33,429 thousand thus paying off the payable position that accrued in 2017 and 2019.

As described in the Consolidated Financial Statements at 31 December 2019 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 (SIMU) 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 completely rejected by the Group.

In order to arrive at a complete Resolution of the differences during 2019 a specific Joint Technical Committee was set up with the Acea Group.

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 2020 at total of € 33,327 thousand of receivables referred to the aforementioned Report were closed.

We can inform you finally that, as regards the Public Lighting service, following the opinion given by the AGCM (Antitrust Authority) in Bulletin no. 49 of 14 December 2020, Roma Capitale began checking the conditions of congruity and economic convenience of the performance terms pursuant to the service contract between the Administration and Acea SpA (and through it areti)

compared with the terms pursuant to the CONSIP – Luce 3 Convention and, in addition, on the basis of the positions expressed by the AGCM in the said opinion, expressed queries over the legitimacy of the award to Acea SpA. On 8 February 2021, with a note ref. DG 1585/2021, Roma Capitale communicated the results of the said checks, affirming definitively “the congruity and convenience of the economic terms currently in being with respect to the qualitative and economic parameters of the CONSIP – Luce 3 Convention” and confirming “the correctness of the prices applied for the Public Lighting service”, overcoming definitively all reserves on the congruity of the prices charged in the context of the contractual relationship in being between Roma Capitale and Acea SpA. In the same note, the Administration therefore ordered the restart of the procedures for payment of Acea’s ascertained receivables in relation to the service contract.

We can note that the said communication regards the correctness of the prices charged, without affecting the Administration’s intention, already manifested, to terminate the relationship with Acea to call for tenders and thus make a new award for the Public Lighting service.

Trade receivables from associates and joint ventures

€ thousand	31/12/2020	31/12/2019	Change	Change %
Receivables from associates	1,517	8,658	(7,142)	(82.5%)
Receivables from jointly controlled entities	7,100	4,978	2,122	42.6%
Total	8,617	13,636	(5,020)	(36.8%)

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 € 8,617 thousand (- € 5,020 thousand), and the decrease in receivables from associates is a consequence of the consolidation of S.I.I. (- € 7,150 thousand), in part compensated for by greater

Acea receivables from subsidiaries following recognition of receivables for allocation of costs incurred for the Acea2.0 programme, representing allocation of the investment in the joint venture (+ € 2,313 thousand).

25.c – Other current assets

€ thousand	31/12/2020	31/12/2019	Change	Change %
Receivables from others	235,791	192,957	42,834	22.2%
Accrued income and prepayments	19,606	19,999	(393)	(2.0%)
Payables arising from commodity derivatives	2,045	0	2,045	n.s.
Total	257,442	212,956	44,486	20.9%

Receivables from others

These totalled € 235,791 thousand, with breakdown of the main contributing items as follows:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Receivables due from the Cassa Conguaglio	37,504	31,681	5,824	18.4%
Receivables from Cassa Conguaglio for Tariff Contribution from cancellation	1,261	4,882	(3,621)	(74.2%)
Other receivables from Cassa Conguaglio	7,757	5,558	2,199	39.6%
Regional grants receivable	227	815	(588)	n.s.
Receivables from Equitalia	232	110	122	111.7%
Security deposits	6,527	3,354	3,173	94.6%
Receivables from social security institutions	3,242	3,130	111	3.6%
Receivables from individual transfers	2,352	2,354	(2)	n.s.
Suppliers' advances	5,158	4,316	842	19.5%
Receivables due from Municipalities	10,784	11,553	(769)	n.s.
Receivables from factor from the sale	288	(150)	438	n.s.
Receivables for accrued Green Certificates	5,596	4,301	1,295	30.1%

(follows)

€ thousand	31/12/2020	31/12/2019	Change	Change %
Receivables from OTAA	16,029	0	16,029	n.s.
Receivables from staff	29	33	(4)	n.s.
Receivables due to the transferee Area Laurentina	6,446	0	6,446	n.s.
Receivables for advances to employees	569	215	354	165.2%
Other tax receivables	30,469	33,024	(2,555)	n.s.
Other receivables	101,323	87,783	13,541	15.4%
Total	235,791	192,957	42,834	22.2%

The increase of € 42,834 thousand derives from receivables due from OTAA deriving from the consolidation of S.I.I. (+ € 16,029 thousand), the increase in receivables due to areti from Cassa Conguaglio for energy equalisation (+ € 5,824 thousand) and receivables for security deposits (- € 3,173 thousand).

Accrued income and prepaid expenses

These amounted to € 19,606 thousand (€ 19,999 thousand at 31

December 2019) and refer mainly to rent on public land, lease payments and insurance. The change was a negative € 393 thousand.

24.d – Current tax assets

These amounted to € 9,618 thousand (€ 12,328 thousand at 31 December 2019) and include IRAP and IRES receivables.

24.e – Current financial assets

€ thousand	31/12/2020	31/12/2019	Change	Change %
Financial receivables from the Parent Company	142,256	132,927	9,328	7.0%
Financial receivables from subsidiaries and associates	2,509	2,518	(9)	(0.4%)
Financial receivables from third parties	235,094	163,766	71,328	43.6%
Total	379,859	299,212	80,647	27.0%

Financial receivables from the Parent Company Roma Capitale

These totalled € 142,256 thousand, recording a decrease of € 9,328 thousand compared to 31 December 2019. 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*.

31 December 2019) and are mainly broken down as follows:

- € 229,967 recognised by the Parent Company, an increase of € 88,225 thousand, due to the combined effect of the collection of the AGCM receivable of € 16,263 thousand (or the fine including interest paid) and the increase in short-term deposits, which went from € 125,000 thousand to € 225,000 thousand;
- € 3,062 thousand recorded in Ecogena for finance leases issued for the cogeneration plants built.

Financial receivables from associates and joint ventures

These amount to € 2,509 thousand and show no significant changes compared to the previous year (€ 2,518 thousand as at 31 December 2019).

24.f – Cash and cash equivalents

The balance at 31 December 2020 of bank current accounts and postal accounts, opened with the various banks and Post Offices by the consolidated companies amounted to € 642,209 thousand. A breakdown and changes in this item by operating segment are shown in the table below:

Financial receivables from third parties

These amounted to € 235,094 thousand (€ 163,766 thousand at

€ thousand	31/12/2020	31/12/2019	Change	Change %
Bank and postal deposits	637,730	823,742	(186,013)	(22.6%)
Cheques	2,096	1,280	816	63.7%
Cash and similar items of value on hand	2,383	10,671	(8,287)	(77.7%)
Total	642,209	835,693	(193,484)	(23.2%)

LIABILITIES

At 31 December 2020 these amounted to € 9,673,614 thousand

(€ 8,954,416 thousand at 31 December 2019), recording an increase of € 719,198 thousand (8.0%) over the previous year, and are broken down as follows:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Shareholders' equity	2,323,258	2,106,710	216,548	10.3%
Non-current liabilities	4,839,048	4,199,020	640,027	15.2%
Current liabilities	2,511,308	2,648,685	(137,378)	(5.2%)
Liabilities directly associated with assets held for sale	0	0	0	n.s.
Total liabilities	9,673,614	8,954,416	719,198	8.0%

26. Shareholders' equity – € 2,323,258 thousand

At 31 December 2020, Shareholders' equity amounted to € 2,323,258 thousand (€ 2,106,710 thousand at 31 December 2019). 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 for a nominal 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 € 129,761 thousand.

Other reserves and retained earnings

At 31 December 2020 these amounted to € 459,853 thousand against € 352,851 thousand at 31 December 2019.

In addition to the allocation of the previous year's result, the change of € 107,002 thousand derives mainly from: 1) distribution of dividends of the Parent Company for € 165,788 thousand and 2) in-

crease in cash flow hedges of financial instruments and commodities for € 1,578 thousand; 3) decrease of € 3,504 thousand in actuarial gains and losses reserves; 4) increase in the exchange rate reserve for € 4,363 thousand.

At 31 December 2020 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 € 358,429 thousand, an increase of € 106,491 thousand. The change between the two periods compared, in addition to the change in the portion of profits pertaining to minority interests, is mainly due to the change in the scope of consolidation (+ € 78,093 thousand), in particular the line by line consolidation of S.I.I. (+ € 21,013 thousand), Consorcio Agua Azul (+ € 13,173 thousand) and Alto Sangro Distribuzione Gas (+ € 12,249 thousand), as well as the allocation to minority interests of goodwill arising during evaluation (+ € 25,457 thousand), about which more information can be found in the relative section of the notes.

27. Employee severance indemnity and other defined benefit plans – € 122.047 thousand

At 31 December 2020, this item amounted to € 122,047 thousand (€ 104,613 thousand as at 31 December 2019) 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 period.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Benefits due at the time of termination of employment				n.s.
Employee severance indemnity	67,029	65,719	1,310	2.0%
Extra months	10,150	10,498	(348)	(3.3%)
Long-Term Incentive Plans (LTIP)	1,600	1,945	(345)	(17.7%)
Post-employment benefits				n.s.
Tariff subsidies	26,033	26,451	(418)	(1.6%)
"Isopensione" (early retirement)	17,235		17,235	n.s.
Total	122,047	104,613	17,434	16.7%

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 compa-

nies 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 2020	December 2019
Discount rate	0.35%	0.77%
Revenue growth rate (average)	1.59%	1.59%
Long-term inflation	1.00%	1.00%

It should be noted that for the first valuation of the companies Ferrocarril S.r.l., Cavallari S.r.l. and Multigreen S.r.l. on 22 April 2020 the discounting rate of the initial valuation was 1.10%, while for the company SIMAM SpA the rate recorded on 7 May 2020 was 1.00%, while for S.I.I. it was 0.37%.

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 performed 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)	-3.8	+4.1
Tariff subsidies	-1.2	+1.3
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)	-0.5
Tariff subsidies	-0.7
Extra months	+0.5

28. Provisions for liabilities and charges – € 156,951 thousand

At 31 December 2020, the provision for risks and charges amounted to € 156,951 thousand (€ 151,418 thousand at 31 December 2019) 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	31/12/2019	Uses	Provisions	Release for excess provisions	Reclassifications/ other changes	31/12/2020
Legal	16,224	(2,192)	2,812	(584)	(86)	16,173
Taxes	9,326	(410)	554	(178)	(122)	9,171
Regulatory risks	27,563	(5,690)	5,546	(51)	64	27,432
Investees	7,464	0	0	(172)	3,016	10,308
Contributory risks	1,405	(319)	22	(69)	68	1,107
Insurance deductibles	10,297	(2,520)	2,829	0	373	10,980
Other risks and charges	25,212	(6,403)	8,147	(5,683)	2,417	23,690
Total provision for risks	97,492	(17,536)	19,912	(6,737)	5,729	98,860
Early retirements and redundancies	29,076	(22,107)	27,997	(80)	(3,123)	31,762
Post mortem	17,090	0	29	0	471	17,591
Provisions for settlement expenses	147	(139)	0	(9)	0	0
Provision for expenses payable to others	7,613	(548)	1,772	(100)	0	8,738
Total provisions for expenses	53,926	(22,794)	29,798	(189)	(2,652)	58,090
Total provision for risks and charges	151,418	(40,329)	49,710	(6,925)	3,077	156,951

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 elements 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 – € 4,154,251 thousand

€ thousand	31/12/2020	31/12/2019	Change	Change %
Bonds	3,253,444	2,754,298	499,146	18.1%
Medium/long-term borrowings	841,464	745,913	95,551	12.8%
IFRS 16 financial payables	59,343	51,679	7,664	14.8%
Total	4,154,251	3,551,889	602,362	45.8%

The figures in the table include the fair value, at 31 December 2020, 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	31/12/2020	Hedged instrument	Derivative fair value	31/12/2019
Bonds	3,230,695	22,749	3,253,444	2,740,607	13,691	2,754,298
Medium/long-term borrowings	834,790	6,673	841,464	740,361	5,551	745,913
Non-current borrowings and financial liabilities	4,065,486	29,422	4,094,908	3,480,968	19,242	3,500,210

BONDS

On 29 January 2020, Acea SpA completed the placement of a non-convertible bond for a total principal amount of € 500 million, maturing on 06 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 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.

Bonds amounted to € 3,253,444 thousand at 31 December 2020 (€ 2,754,298 thousand at 31 December 2019) and refer to the following:

- **€ 597,669 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 € 15,770 thousand;
- **€ 494,820 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 € 5,003 thousand;
- **€ 158,441 thousand** relating to the Private Placement which, net of the fair value of the hedge, a negative € 22,749 thousand, amounted to € 181,190 thousand. This fair value is allocated to a specific equity reserve. A suitable exchange reserve includes the exchange rate difference, a negative € 6,649 thousand, of the hedged instrument calculated on 31 December 2020. The exchange rate at 31 December 2020 amounted to € 126.18 against € 121.77 at 31 December 2019. Interest accrued during the period amounted to € 4,028 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;
- **€ 299,737 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 € 81 thousand;
- **€ 690,597 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 € 10,516 thousand;
- **€ 494,098 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 years under the EMTN programme. Interest accrued during the period amounted to € 8,764 thousand;
- **€ 495,333 thousand** (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 29 January 2020, with a rate of 0.50% for the duration of 9 years under the EMTN programme. Interest accrued during the period amounted to € 2,259 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 2014	596,774	0	7,336	604,110
Private Placement issued in 2014	158,423	22,749	655	181,827
Issued in 2016	493,802	0	945	494,747
Issued in 2018	988,442	0	5,955	994,397
Issued in 2019	493,276	0	5,346	498,622
Issued in 2020	494,705	0	1,849	496,554
Total	3,225,422	22,749	22,086	3,270,257

* Including amortised cost. ** Including rates on hedging instruments.

MEDIUM/LONG-TERM BORROWINGS (INCLUDING SHORT-TERM PORTIONS)

These amounted to € 953,558 thousand (€ 827,947 thousand at 31 December 2019) and can be broken down as follows: 1) payables relative to principal outstanding falling due beyond 12 months totalling € 587,411 thousand (€ 745,913 thousand at 31 December 2019), 2) the portions of the same borrowings falling due in the 12 months thereafter, totalling € 112,094 thousand (€ 82,035 thousand at 31 December 2019); these amounts include the fair value

portion totalling € 6,673 thousand (€ 5,551 thousand at 31 December 2019) of derivative instruments intended to hedge interest rate risks.

The increase, which refers to the Parent Company, is essentially due to a new loan disbursed by Ubi Banca for € 100,000 thousand, and for € 8,790 thousand due to the modification of the scope of consolidation.

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

Financing € thousand	Total residual debt	Due from 31/12/2021		
		By 31/12/2021	to 31/12/2025	After 31/12/2025
fixed rate	315,246	29,837	221,129	64,280
floating rate	442,866	62,530	196,906	183,429
floating rate cash flow hedge	195,447	19,728	57,282	118,437
Total	953,558	112,094	475,317	366,146

The fair value of hedging derivatives totalled € 7,100 thousand and consisted of € 613 thousand related to the Parent Company, € 4,791 thousand to AdF and € 1,302 thousand to Gori.

The Group's main 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 2019.

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, etc.), 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 2020.

IFRS 16 FINANCIAL PAYABLES

This item includes the long-term portion of the financial payable deriving from the impact of IFRS 16 amounting to € 59,343 thousand, of which the short-term portion amounts to € 14,300 thousand. The cash flows the Group is potentially exposed to are shown below, broken down by maturity date:

	Within 12 months	Within 24 months	Within 5 years	Residual debt
IFRS 16 liabilities	14,300	25,683	49,123	73,643

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 – € 405,799 thousand

€ thousand	31/12/2020	31/12/2019	Change	Change %
Advances received	175,209	159,609	15,600	9.8%
Water and electrical connection fees	43,218	49,564	(6,347)	(12.8%)
Capital grants	147,379	139,870	7,509	5.4%
Accrued liabilities and deferred income	39,993	42,057	(2,064)	(4.9%)
Total other liabilities	405,799	391,100	14,699	3.8%

ADVANCES FROM END USERS AND CUSTOMERS

The item Advances 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).

The following table provides the breakdown by operating segments:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Advances from users	16,652	9,242	7,409	80.2 %
User guarantee deposits	151,571	149,329	2,243	1.5 %
Advances from other customers	6,987	1,038	5,948	n.s.
Total	175,209	159,609	15,600	9.8 %

The increase recorded is due to the change in the scope of consolidation, mainly associated with SIMAM (+ € 6,419 thousand) and S.I.I. (+ € 4,167 thousand), as well as the increase recorded by areti (+ € 13,366 thousand).

amounted to € 147,379 thousand (€ 139,870 thousand at 31 December 2019).

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

Water connection contributions amounted to €43,218 thousand (€ 49,564 thousand at 31 December 2019), while plant contributions

31. Current liabilities – € 2,511,308 thousand

€ thousand	31/12/2020	31/12/2019	Change	Change %
Financial payables	419,822	674,364	(254,542)	(37.7%)
Trade payables	1,627,119	1,600,263	26,856	1.7 %
Tax payables	40,217	11,977	28,240	n.s.
Other current liabilities	424,150	362,082	62,068	17.1 %
Current liabilities	2,511,308	2,648,685	(137,378)	(5.2%)

31.a Financial payables

€ thousand	31/12/2020	31/12/2019	Change	Change %
Payables to banks for short-term credit lines	95,142	6,526	88,617	n.s.
Payables due to banks for financing	112,094	82,035	30,060	36.6%
Short-term bonds	16,813	453,390	(436,577)	(96.3%)
Payables to the Parent Company Municipality of Rome	133,683	79,578	54,104	68.0%
Payables to subsidiaries and associates	26	596	(570)	(95.7%)
Payables to third parties	47,765	39,454	8,311	21.1%
IFRS 16 financial payables within one year	14,300	12,786	1,514	11.8%
Total	419,822	674,364	(254,542)	(37.7%)

Payables for short-term bank credit lines

These amounted to € 95,142 thousand (€ 6,526 thousand at 31 December 2019), showing an increase of € 88,617 thousand, mainly attributable to the Parent Company (+ € 99,152 thousand), in relation to three disbursements during 2020 for a total of € 90,000 thousand.

Payables for bank loans

These amounted to € 112,094 thousand (€ 82,035 thousand at 31 December 2019), and refer to the current portion of bank loans falling due within twelve months. The change in the scope of consolidation contributed € 8,298 million to the increase, while the remaining change can be attributed to the Parent Company (+ € 20,244 thousand) and relates to reclassification of the short-term position of the first instalment of the repayment plan for the BEI loan obtained on 2 May 2017, for € 200,000 thousand, as part of the Network Efficiency III Project.

Short-term bonds

These amounted to € 16,813 thousand (€ 453,390 thousand at 31 December 2019). The decrease in short-term bonds is due to the extinction of the Parent Company's bond issue maturing on 16 March 2020.

Payables to the Parent Company Roma Capitale

These amounted to € 133,683 thousand (€ 79,578 thousand at 31 December 2019) and recorded an increase resulting from the combined effect of the Resolution of the Parent Company's dividends, offset by the payment of dividends during the period.

Payables to subsidiaries and associates

These amounted to € 26 thousand and fell € 570 thousand compared to 31 December 2019.

Payables to third parties

These amounted to € 47,765 thousand (€ 39,454 thousand at 31 December 2019). The item can be represented as follows:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Dividends payable to Shareholders	922	539	382	70.9 %
Financial payables due to factors	39,675	31,206	8,469	27.1 %
Other financial payables	7,168	7,708	(540)	(7.0%)
Total	47,765	39,454	8,311	21.1 %

IFRS 16 financial payables within one year

These payables, totalling € 14,300 thousand, represent the short-term portion of the financial debt as at 31 December 2020 re-

corded following application of the IFRS 16 international standard. For additional information refer to note 29.

31.b Trade payables

€ thousand	31/12/2020	31/12/2019	Change	Change %
Payables to suppliers	1,535,067	1,472,802	62,265	4.2 %
Payables to the Parent Company	87,634	121,661	(34,026)	(28.0%)
Payables to subsidiaries and associates	4,417	5,800	(1,383)	(23.8%)
Trade payables	1,627,119	1,600,263	26,856	1.7 %

PAYABLES TO THIRD-PARTY SUPPLIERS

Payables to suppliers amounted to € 1,535,067 thousand. The increase of € 62,265 thousand, is mainly attributable to Acea Energia (+ € 48,486 thousand), while the change in the scope of consolidation accounts for € 9,004 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 maintained 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 € 87,634 thousand and are commented on with the trade receivables in paragraph 25b of these notes.

TRADE PAYABLES DUE TO SUBSIDIARIES AND ASSOCIATES

Trade payables to subsidiaries and associated companies amounted to € 4,417 thousand and include payables to companies consolidated using the equity method. Compared to 31 December 2019, the item did not show any significant changes.

31.c Tax payables

These amount to € 40,217 thousand (€ 11,977 thousand at 31 December 2019) and include the IRAP and IRES tax burden for the period. The increase of € 28,240 is mainly attributable to the Parent Company (+ € 12,600 thousand), to Gori (+ € 5,004 thousand) and to AdF (+ € 3,254 thousand).

31.d Other current liabilities

These are equal to € 424,150 thousand and are represented as follows:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Payables to social security institutions	25,211	24,904	307	1.2%
Accrued liabilities and deferred income	56,120	28,688	27,433	95.6%
Other current liabilities	342,818	308,490	34,328	11.1%
Total	424,150	362,082	62,068	17.1%

Payables to social security institutions

These amounted to € 25,211 thousand, in line with the previous year (€ 24,904 thousand at 31 December 2019).

Accrued liabilities and deferred income

This item amounted to € 56,120 thousand (€ 28,688 thousand at 31 December 2019). The increase can mainly be attributed to con-

solidation of S.I.I. (+ € 23,976 thousand) and SIMAM (+ € 949 thousand).

Other current liabilities

These amounted to € 342,818 thousand, an increase of € 34,328 thousand compared to 31 December 2019. The entry is made up as follows:

€ thousand	31/12/2020	31/12/2019	Change	Change %
Payables to Cassa Conguaglio	53,183	54,758	(1,575)	(2.9%)
Payables to Municipalities for concession fees	61,407	54,916	6,491	11.8 %
Payables for collections subject to verification	20,024	15,022	5,001	33.3 %
Payables due to personnel	48,885	51,147	(2,262)	(4.4%)
Other payables to Municipalities	34,910	30,236	4,674	15.5 %
Payables to Equitalia	2,096	2,098	(2)	(0.1%)
Welfare contribution payables	1,877	(296)	2,173	n.s.
Payables for environmental premium art. 10 of AT14 agreement of 13/08/2007	634	560	74	13.3 %
Payables for purchase of surface rights	0	133	(133)	(100.0%)
Payables to end users for refund of tariff component as per referendum outcome	14	13	0	0.1%
Other payables	119,789	99,902	19,887	19.9 %
Other current liabilities	342,818	308,490	34,328	11.1 %

The increase of € 34,328 thousand mainly refers to payables to Municipalities for concession fees (+ € 6,491 thousand), mainly due to consolidation of S.I.I. (+ € 4,738 thousand), to payables for collections subject to verification (+ € 5,001 thousand) attributable to Acea Ato 2 (+ € 2,988 thousand) and Acea Energia (+ € 1,744 thousand), to other payables due to Municipalities (+

€ 4,462 thousand), mainly due to consolidation of S.I.I. (+ € 5,364 thousand), other payables for welfare contributions (+ € 2,173 thousand), mainly attributable to Acea Ato 2; these effects were partially compensated for by the reduction in payables due to personnel (€ 2,262 thousand).

COMMITMENTS AND CONTINGENCIES

ENDORSEMENTS, SURETIES AND GUARANTEES

At 31 December 2020 they totalled € 478,806 thousand (€ 385,590 thousand at 31 December 2019), recording an increase of € 93,216 thousand.

The balance is made up of:

- € 95,110 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;
- € 8,800 thousand for the bank guarantee issued in favour of ATERSIR for participation in the tender to assign the Emilia Romagna Integrated Water Service;
- € 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);
- € 29,436 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;
- € 15,385 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 Roma Natura in connection with works to upgrade the network in the Marcigliana Reserve;
- € 5,028 thousand for the guarantee issued in favour of Italgas SpA in the interest of Acea Energia, increased in January 2020;
- € 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 relative to Acea Ato 5 and in particular the obligatory surety required under article 31 of the Technical Specifications, issued by Unicredit to OTAA, calculated on 10% of the three-year average of the Financial-Tariff Plan of the OTAA Area Plan, which during 2019 was extended until 28 February 2023 with the amount adjusted through 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;
- € 38,000 thousand for the issuing of a back to back guarantee in favour of a pool of banks providing financing for the Acquedotto del Fiora;
- € 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;
- € 21,810 thousand for bank sureties issued in favour of INPS as part of the Isopensione programme;
- € 6,694 thousand for two bank sureties issued in favour of Sedapal to manage pumping stations in the city of Lima and for maintenance of the water and sewerage network in the Nord zone;
- € 7,485 thousand for back to back guarantees issued to bank institutions after the acquisition of Trinovolt, Marche Solar and Eurline 3.

BUSINESS COMBINATION

Below are the Business Combination, for which recognition using the acquisition method is to be considered definitive.

KT4 S.r.l.

On 29 July 2020, the merger by incorporation was approved for the following companies into the limited liability single Shareholder company KT4 SRL: Luna, Sisine, Urbe Cerig, Urbe Solar and Bersolar. The statutory effects of the merger are valid as of 1 December 2020, while accounting and tax effects are retroactive to 1 January 2020.

Net assets acquired	KT4		
	IAS/IFRS	Faire value Adj	Fair value
€ thousand			
Tangible fixed assets	2,078	0	2,078
Intangible fixed assets	156	582	738
Deferred taxes	18	(168)	(150)
Trade receivables	129	0	129
Other credits	132	0	132
Cash and cash equivalents	50	0	50
Employee severance indemnity and other defined benefit plans	(4)	0	(4)
Current tax assets/liabilities	3	0	3
Trade payables	(10)	0	(10)
Other payables	(370)	0	(370)
Other financial liabilities	(1,152)	0	(1,152)
Payables to banks	(787)	0	(787)
Net balance	243	414	657
Goodwill/(badwill)			86
Net value acquired			745
Net cash outflow for the acquisition			(745)
Cash and cash equivalents acquired			50
Repayment of financial payables			(1,282)
Payables to banks			(787)
Net cash flow			(2,764)

The adjustments to the accounting assets and liabilities of KT4 and the fair value adjustments applied at allocation are as follows:

- registration of intangible assets represented by the Agreement for a fair value estimated at € 582 thousand;
- registration of deferred taxes for € 168 thousand, calculated applying a tax rate of 28.82%.

Below the effects of the Business Combination are reported separately.

1.a) KT4 S.r.l.

On 27 June 2019, Acea Sun Capital completed the purchase of 100% of the capital of KT4 S.r.l., a company that owns a photovoltaic plant with a power of 998 KW in the Municipality of Novoli. The price paid was € 745 thousand.

The identified goodwill amounted to € 86 thousand and the transaction was accounted for using the acquisition method and the related results are definitive.

1.b) Urbe Group

On 12 November 2019 the companies Urbe Solar and Urbe Cerig were acquired.

Net assets acquired	Urbe Group		
	IAS/IFRS	Faire value Adj	Fair value
€ thousand			
Tangible fixed assets	3,868	0	3,868
Intangible fixed assets	301	1,484	1,785
Deferred taxes	0	(428)	(428)
Trade receivables	1,380	0	1,380
Other credits	174	0	174
Cash and cash equivalents	425	0	425
Current tax assets/liabilities	374	0	374

(follows)

Net assets acquired	Urbe Group		
	IAS/IFRS	Faire value Adj	Fair value
€ thousand			
Other payables	(150)	0	(150)
Other financial liabilities	(6,020)	0	(6,020)
Net balance	351	1,056	1,407
Goodwill/(bargain)			(931)
Net value acquired			476
Net cash outflow for the acquisition			(476)
Cash and cash equivalents acquired			425
Repayment of financial payables			(1,478)
Payables to banks			0
Net cash flow			(1,530)

The adjustments to the accounting assets and liabilities of Urbe Solar and Urbe Cerig and the fair value adjustments applied at allocation are as follows:

- registration of intangible assets represented by the Agreement for a fair value estimated at € 1,484 thousand;
- registration of deferred taxes for € 428 thousand, calculated applying a tax rate of 28.82%.

The identified bargain amounted to € 931 thousand and the transaction was accounted for using the acquisition method and the related results are definitive.

1.c) Sindal Group

On 2 August 2019, Acea Sun Capital signed a sales contract with Sindal SpA and Consulta Dekta Erre Trust Company S.r.l. to: 1) acquire 100% of the capital of the companies Luna Energia S.r.l. and Sisine Energia S.r.l. The companies both operate in the solar energy production sector, through a photovoltaic plant, each one of around 1 MW located in Cerignola. The total price paid was € 4,690 thousand, of which € 1,410 thousand to acquire the financial receivable and € 3,280 to acquire the equity investments.

Net assets acquired	Sindal Group		
	IAS/IFRS Financial Statements	Adj fair value	Fair value
€ thousand			
Tangible fixed assets	5,465	(1,127)	4,338
Intangible fixed assets	555	3,631	4,186
Equity investments	0	0	0
Warehouse stock	0	0	0
Deferred taxes	50	(699)	(649)
Trade receivables	561	0	561
Other credits	127	0	127
Financial credits	0	0	0
Cash and cash equivalents	1,001	0	1,001
Employee severance indemnity and other defined benefit plans	0	0	0
Costs and obligations fund	0	0	0
Current tax assets/liabilities	26	0	26
Trade payables	(28)	0	(28)
Other payables	(1)	0	(1)
Other financial liabilities	(5,773)	0	(5,773)
Payables to banks	0	0	0
Allocated goodwill	0	0	0
Net balance	1,983	1,805	3,788
attributable to third parties			0
Goodwill/(bargain)			(508)
Net value acquired			3,280
Net cash outflow for the acquisition			(3,280)
Cash and cash equivalents acquired			1,001
Repayment of financial payables			(1,410)
Payables to banks			0
Net cash flow			(3,688)

The adjustments to the accounting assets and liabilities of Luna and Sisine and the fair value adjustments applied at allocation are as follows:

- registration of intangible assets represented by the Agreement for a fair value estimated at € 3.631 thousand;
- registration of deferred taxes for € 699 thousand, calculated applying a tax rate of 28.82%.

The identified bargain amounted to € 508 thousand and the

transaction was accounted for using the acquisition method and the related results are definitive.

1.d) Bersolar

On 2 August 2019, Acea Sun Capital completed its acquisition of 100% of Bersolar S.r.l., a company which produces electricity from renewable sources using photovoltaic plants.

Net assets acquired	Bersolar		
	IAS/IFRS Financial Statements	Adj fair value	Fair value
€ thousand			
Tangible fixed assets	0	0	0
Intangible fixed assets	2,005	926	2,931
Equity investments	0	0	0
Warehouse stock	0	0	0
Deferred taxes	2	(267)	(265)
Trade receivables	105	0	105
Other credits	500	0	500
Financial credits	0	0	0
Cash and cash equivalents	127	0	127
Employee severance indemnity and other defined benefit plans	0	0	0
Costs and obligations fund	(6)	0	(6)
Current tax assets/liabilities	0	0	0
Trade payables	(76)	0	(76)
Other payables	(2)	0	(2)
Other financial liabilities	(1,955)	0	(1,955)
Payables to banks	0	0	0
Allocated goodwill	0	0	0
Net balance	700	659	1,359
attributable to third parties			0
Goodwill/(bargain)			(67)
Net value acquired			1,292
Net cash outflow for the acquisition			(1,292)
Cash and cash equivalents acquired			127
Repayment of financial payables		0	0
Payables to banks			0
Net cash flow			(1,165)

The adjustments to the accounting assets and liabilities of Bersolar and the fair value adjustments applied at allocation are as follows:

- registration of intangible assets represented by the Agreement for a fair value estimated at € 926 thousand;
- registration of deferred taxes for € 267 thousand, calculated applying a tax rate of 28.82%.

The identified bargain amounted to € 67 thousand and the transaction

was accounted for using the acquisition method and the related results are definitive.

2. Trinovolt

On 17 December 2019, Acea Sun Capital completed the acquisition of 100% of the capital of Trinovolt, a company that owns two photovoltaic systems with a power of 1MhW each in the Municipality of Binetto. The price paid was € 315 thousand.

Net assets acquired	Trinovolt		
	IAS/IFRS	Faire value Adj	Fair value
€ thousand			
Intangible fixed assets	4,306	1,548	5,855
Deferred taxes	105	(446)	(342)
Trade receivables	13	0	13
Other credits	1,766	0	1,766
Cash and cash equivalents	1,119	0	1,119

(follows)

Net assets acquired	Trinovolt		
	IAS/IFRS	Faire value Adj	Fair value
€ thousand			
Current tax assets/liabilities	61	0	61
Trade payables	(47)	0	(47)
Other payables	(726)	0	(726)
Other financial liabilities	(6,157)	0	(6,157)
Net balance	440	1,102	1,542
Goodwill/(bargain)			(1,227)
Net value acquired			315
Net cash outflow for the acquisition			
			(315)
Cash and cash equivalents acquired			1,119
Payables to banks			0
Net cash flow			804

The adjustments to the accounting assets and liabilities of Trinovolt and the fair value adjustments applied at allocation are as follows:

- registration of intangible assets represented by the Agreement for a fair value estimated at € 1.548 thousand;
- registration of deferred taxes for € 446 thousand, calculated applying a tax rate of 29.12%.

The identified bargain amounted to € 1,227 thousand and the

transaction was accounted for using the acquisition method and the related results are definitive.

3. Marche Solar

On 26 September 2019, Acea Sun Capital completed the purchase of 100% of the capital of Marche Solar, a company that owns a photovoltaic plant with a power of 1MhW in the Municipality of Cartoceto. The price paid was € 10 thousand.

Net assets acquired	Marche Solar		
	IAS/IFRS	Faire value Adj	Fair value
€ thousand			
Intangible fixed assets	2,209	234	2,443
Deferred taxes	23	(67)	(44)
Trade receivables	5	0	5
Other credits	704	0	704
Cash and cash equivalents	101	0	101
Current tax assets/liabilities	182	0	182
Trade payables	(32)	0	(32)
Other payables	(84)	0	(84)
Other financial liabilities	(2,771)	0	(2,771)
Net balance	338	167	505
Goodwill/(bargain)			(495)
Net value acquired			10
Net cash outflow for the acquisition			
			(10)
Cash and cash equivalents acquired			101
Repayment of financial payables			(282)
Payables to banks			0
Net cash flow			(191)

The adjustments to the accounting assets and liabilities of Marche Solar and the fair value adjustments applied at allocation are as follows:

- registration of intangible assets represented by the Agreement for a fair value estimated at € 234 thousand;
- registration of deferred taxes for € 67 thousand, calculated applying a tax rate of 28.82%.

The identified bargain amounted to € 495 thousand and the transaction was accounted for using the acquisition method and the related results are definitive.

4. Demap

On 4 July 2019, through Acea Ambiente, the Group acquired 90% of Demap, a company operating in Piedmont in the field of

plastics recycling. The definitive allocation of the fair value of net assets is as follows:

€ thousand	Demap		
	IAS/IFRS	Faire value Adj	Fair value
Tangible fixed assets	3,765	1,403	5,168
Intangible fixed assets	127	0	127
Warehouse stock	198	0	198
Deferred taxes	51	(392)	(340)
Trade receivables	2,796	0	2,796
Other credits	22	0	22
Cash and cash equivalents	1,585	0	1,585
Employee severance indemnity and other defined benefit plans	(160)	0	(160)
Costs and obligations fund	(84)	0	(84)
Current tax assets/liabilities	(220)	0	(220)
Trade payables	(3,415)	0	(3,415)
Other payables	(261)	0	(261)
Other financial liabilities	(125)	0	(125)
Payables to banks	(121)	0	(121)
Net balance	4,158	1,012	5,170
attributable to third parties			1,618
Goodwill/(badwill)			16,696
Net value acquired			19,833
Net cash outflow for the acquisition			(19,833)
Cash and cash equivalents acquired			1,585
Payables to banks			(121)
Net cash flow			(18,369)

The transaction was accounted for using the acquisition method and the related results are definitive.

It should be noted that the "Full goodwill" method was used as there is an option right on the purchase of an additional 10% of the shareholding.

5. Pescara Distribuzione Gas

On 18 March 2019 the Parent Company acquired 51% of Pescara Distribuzione Gas, a company that distributes and meters methane gas in the municipality of Pescara. The definitive allocation of the fair value of net assets is as follows:

€ thousand	Pescara Gas		
	IAS/IFRS	Faire value Adj	Fair value
Tangible fixed assets	14,141	480	14,622
Intangible fixed assets	230	0	230
Warehouse stock	199	0	199
Deferred taxes	186	(138)	48
Trade receivables	5,137	0	5,137
Other credits	1,836	0	1,836
Cash and cash equivalents	178	0	178
Employee severance indemnity and other defined benefit plans	(195)	0	(195)
Current tax assets/liabilities	(39)	0	(39)
Trade payables	(3,760)	0	(3,760)
Other payables	(3,364)	0	(3,364)
Other financial liabilities	(147)	0	(147)
Payables to banks	(7,543)	0	(7,543)
Net balance	6,860	342	7,202

(follows)

Net assets acquired	Pescara Gas		
	IAS/IFRS	Faire value Adj	Fair value
€ thousand			
attributable to third parties			(3,529)
Goodwill/(badwill)			617
Net value acquired			4,290
Net cash outflow for the acquisition			(4,290)
Cash and cash equivalents acquired			178
Payables to banks			(7,543)
Net cash flow			(11,656)

The transaction was accounted for using the acquisition method and the related results are definitive.

6. Berg

On 18 October 2019, the Group acquired 60% of Berg, a waste management company in the Municipality of Frosinone. The definitive allocation of the fair value of net assets is as follows:

Net assets acquired	Berg		
	IAS/IFRS Financial Statements	Adj fair value	Fair value
€ thousand			
Tangible fixed assets	1,667	(38)	1,629
Intangible fixed assets	1,963	9,796	11,759
Equity investments	1	0	1
Warehouse stock	0	0	0
Deferred taxes	0	(2,812)	(2,812)
Trade receivables	2,310	0	2,310
Other credits	279	0	279
Financial credits	45	0	45
Cash and cash equivalents	1,151	0	1,151
Employee severance indemnity and other defined benefit plans	(190)	0	(190)
Costs and obligations fund	(246)	0	(246)
Current tax assets/liabilities	(1,000)	0	(1,000)
Trade payables	(1,546)	0	(1,546)
Other payables	(87)	0	(87)
Other financial liabilities	(1,669)	0	(1,669)
Payables to banks	(822)	0	(822)
Allocated goodwill	0	0	0
Net balance	1,856	6,946	8,802
attributable to third parties			(3,521)
Goodwill/(bargain)			4,052
Net value acquired			9,334
Net cash outflow for the acquisition			(9,334)
Cash and cash equivalents acquired			1,151
Repayment of financial payables			0
Payables to banks			(822)
Net cash flow			(9,005)

Note that the put option was valued at € 3,520 thousand. The transaction was accounted for using the acquisition method and the related results are definitive.

7. Solaria

On 11 July 2019, Acea Sun Capital signed a sales contract with Belenergia Mezz Finance and Belenergia S.A. to: 1) acquire shares equal to 65% of the respective share capital of the companies Brindisi Solar, Compagnia Solare 2 and Solaria Real Estate, which produce photovoltaic energy (Operation 1); 2) acquire Shareholder loan receivables with reference to the companies Brindisi Solar and Solaria Real Estate.

On 6 August 2019, Acea Sun Capital signed a sales contract with Belenergia Mezz Finance and Belenergia S.A. to: 1) acquire shares equal to 65% of the respective share capital of the companies Acquaviva S.r.l., Compagnia Solare 3 S.r.l. and Spes S.r.l., which produce photovoltaic energy; 2) acquire Shareholder loan receivables with reference to the companies Acquaviva and Spes.

Net assets acquired	Solaria		
	IAS/IFRS Financial Statements	Adj fair value	Fair value
€ thousand			
Tangible fixed assets	39,092	(4,572)	34,520
Intangible fixed assets	6,459	20,225	26,684
Equity investments	0	0	0
Warehouse stock	0	0	0
Deferred taxes	1,058	(4,367)	(3,309)
Trade receivables	4,140	0	4,140
Other credits	2,665	0	2,665
Financial credits	814	0	814
Cash and cash equivalents	4,164	0	4,164
Employee severance indemnity and other defined benefit plans	0	0	0
Costs and obligations fund	(304)	0	(304)
Current tax assets/liabilities	146	0	146
Trade payables	(3,170)	0	(3,170)
Other payables	(170)	0	(170)
Other financial liabilities	(13,410)	87	(13,323)
Payables to banks	(30,839)	0	(30,839)
Allocated goodwill	0	0	0
Net balance	10,647	11,373	22,019
attributable to third parties			(7,707)
Goodwill/(bargain)			897
Net value acquired			15,210
Net cash outflow for the acquisition			(15,210)
Cash and cash equivalents acquired			4,164
Repayment of financial payables			(2,205)
Payables to banks			(30,839)
Net cash flow			(44,089)

The transaction was accounted for using the acquisition method and the related results are definitive.

8. 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 OTA 6 with effect from 1

January 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 operation was recognised to comply with the Purchase Price Allocation required by the IFRS 3 international accounting standard.

Net assets acquired	Fiora		
	IAS/IFRS Financial Statements	Adj fair value	Fair value
€ thousand			
Tangible fixed assets	22,970	0	22,970
Intangible fixed assets	203,508	32,756	236,264
Equity investments	930	0	930
Warehouse stock	1,028	0	1,028

(follows)

Net assets acquired	Fiora		
	IAS/IFRS Financial Statements	Adj fair value	Fair value
€ thousand			
Deferred taxes	7,932	(8,312)	(380)
Trade receivables	42,959	0	42,959
Other credits	3,849	0	3,849
Financial credits	0	0	0
Cash and cash equivalents	50,696	0	50,696
Employee severance indemnity and other defined benefit plans	(2,947)	0	(2,947)
Costs and obligations fund	(8,657)	0	(8,657)
Current tax assets/liabilities	(4,332)	0	(4,332)
Trade payables	(47,636)	0	(47,636)
Other payables	(44,226)	0	(44,226)
Other financial liabilities	(7,442)	0	(7,442)
Payables to banks	(130,900)	0	(130,900)
Allocated goodwill	0	0	0
Net balance	87,730	24,444	112,174
attributable to third parties			(67,305)
Goodwill/(bargain)			2,751
Net value acquired			47,621
Net cash outflow for the acquisition			0
Cash and cash equivalents acquired			50,696
Repayment of financial payables			
Payables to banks			(130,900)
Net cash flow			(127,825)

The transaction was accounted for using the acquisition method and the related results are definitive.

BUSINESS COMBINATION – PROVISIONAL ACCOUNTING (IFRS 3 – PAR.45)

Acquisition of control over Consorcio Agua Azul

Through Acea International, the Group holds a stake in Consorcio Agua Azul, with a 25.5% stake as at 31 December 2019. On 13

January 2020, the Group acquired an additional shareholding of 18.5%, thus increasing its shareholding to 44%. In addition, a Shareholders' agreement was signed with the Shareholder Inversiones (which holds 27% of the shares), which resulted in a change of control according to IFRS 10, and therefore the Company was consolidated on a line-by-line basis as from 13 January 2020.

The operation was (provisionally) recognised to comply with the Purchase Price Allocation required by the IFRS 3 international accounting standard.

Net assets acquired	Azul		
	IAS/IFRS Financial Statements	Adj fair value	Fair value
€ thousand			
Tangible fixed assets	322	0	322
Intangible fixed assets	14,965	12,436	27,401
Equity investments	0	0	0
Warehouse stock	240	0	240
Deferred taxes	2,177	(3,668)	(1,492)
Trade receivables	1,055	0	1,055
Other credits	76	0	76
Financial credits	3,514	0	3,514
Cash and cash equivalents	7,011	0	7,011
Employee severance indemnity and other defined benefit plans	0	0	0
Costs and obligations fund	(307)	0	(307)
Current tax assets/liabilities	(172)	0	(172)
Trade payables	(159)	0	(159)

(follows)

Net assets acquired

Azul

€ thousand	IAS/IFRS Financial Statements	Adj fair value	Fair value
Other payables	(358)	0	(358)
Other financial liabilities	(790)	0	(790)
Payables to banks	(2,723)	0	(2,723)
Allocated goodwill	0	0	0
Net balance	24,849	8,768	33,617
attributable to third parties			(18,826)
Goodwill/(bargain)			5,560
Net value acquired			20,351
Net cash outflow for the acquisition			(8,550)
Cash and cash equivalents acquired			7,011
Repayment of financial payables			
Payables to banks			(2,723)
Net cash flow			(4,262)

The transaction was accounted for using the acquisition method and the related results cannot be considered as definitive.

Acquisition of photovoltaic companies

In the first half of 2020, the Group acquired the following companies: Fergas, Euroline3, IFV Energy and PF Power for Future. Below we indicate the total value relative to the acquisition of the equity investment stakes, which comes to € 4,297 thousand.

€ thousand	
Net balance	2,201
attributable to third parties	0
Goodwill	2,095
Net value acquired	4,297
Net cash outflow for the acquisition	(4,297)
Cash and cash equivalents acquired	941
Repayment of financial payables	(4,243)
Payables to banks	0
Net cash flow	(7,599)

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.

60% of the companies Ferrocarril and Cavallari, which in turn owns 100% of Multigreen.

The companies own a total of four plants with a total authorised capacity of over 145 thousand tonnes per year, operate in the provinces of Terni and Ancona, carrying out sorting and recovery of paper, iron, timber, plastics and metals and are also active in the management of the separate collection of production waste and packaging as well as waste disposal.

Acquisition of Cavallari and Ferrocarril Group

On 22 April 2020, through Acea Ambiente the Group acquired

€ thousand	
Net balance	10,334
attributable to third parties	(4,134)
Goodwill	14,258
Net value acquired	20,458
Net cash outflow for the acquisition	(20,458)
Cash and cash equivalents acquired	6,583
Repayment of financial payables	0
Payables to banks	(8,006)
Net cash flow	(21,881)

Note that the put options to acquire an additional 20% stake in Ferrocarril and Cavallari were respectively measured at € 2,300 thousand and € 2,800 thousand.

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.

€ thousand

Net balance	6,469
attributable to third parties	(1,941)
Goodwill	17,331
Net value acquired	21,859
Net cash outflow for the acquisition	(21,859)
Cash and cash equivalents acquired	4,426
Repayment of financial payables	0
Payables to banks	(5,689)
Net cash flow	(23,122)

Note that the operation calls for a put option, but at present this has not yet been measured, given the lack of certainty that the objectives for exercising it will be achieved.

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.

€ thousand

Net balance	108
attributable to third parties	0
Goodwill	1,382
Net value acquired	1,491
Net cash outflow for the acquisition	(1,491)
Cash and cash equivalents acquired	186
Repayment of financial payables	0
Payables to banks	0
Net cash flow	(1,304)

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.

Acquisition of Energia SpA

On 13 May 2020, through Acea Sun Capital, the Group acquired a 49.9% non-controlling stake in the company Energia SpA. This company operates in the design, construction, management and maintenance of plants for the production of electricity, including from renewable sources. Additionally, as of the acquisition date, the company owns two subsidised photovoltaic plants ("IV Energy Grant"), with net power of around 7.6 MW, installed in Nepi and Spoleto. The transaction is currently being analysed and has generated higher values for € 6.9 million, currently recorded in the value of the investment using the equity method.

Acquisition of SIMAM

On 7 May 2020 the Group acquired 70% of SIMAM, a leader in the design, construction and management of water and waste treatment plants and in environmental interventions and remediation, with integrated solutions of high technological content.

Acquisition of Electric Drive Italia

On 19 May 2020, through Acea Innovation the Group acquired 100% of the company Electric Drive Italia, a company that promotes the development of electric mobility through advanced IT solutions.

Belaria Acquisition

On 21 July 2020, Acea Sun Capital finalised the acquisition of a 49% non-controlling interest in Belaria S.r.l., for the price of € 4,133,150.00, of which € 4,900 to purchase the stake in the share capital and the remaining portion as a financial receivable. The transaction is currently being analysed.

Alto Sangro Distribuzione Gas Acquisition

On 31 August 2020, the Parent Company finalised the acquisition of a 51% equity investment in Alto Sangro Distribuzione Gas S.r.l., for a total price of € 19,732,243.26. The transaction is currently being analysed.

€ thousand

Net balance	24,385
attributable to third parties	(11,949)
Goodwill/(badwill)	7,296
Net value acquired	19,732
<hr/>	
Net cash outflow for the acquisition	(19,732)
Cash and cash equivalents acquired	987
Loan disbursement	0
Payables to banks	(857)
Net cash flow	(19,602)

Acquisition of control over S.I.I.

The Parent Company holds a 99.2% stake in Umbriadue, which in turn holds a 25.5% stake in S.I.I., which is a joint stock consortium which was awarded, through the signing of the Agreement, management of the Integrated Water Service for AURI Umbria sub-section 4 for 30 years, that is from 31 December 2001 through 31 December 2031. On 17 November 2020, the Group acquired an additional shareholding of 15.5%, thus increasing its shareholding to 40%. In addition, a Shareholders' agreement was signed which

resulted in a change of control on the basis of IFRS 10, and therefore the Company was consolidated on a line-by-line basis as from 17 November 2020. The transaction is currently being analysed in order to comply with the Purchase Price Allocation required by the IFRS 3 international accounting standard. It should be noted that badwill of € 3 million has been provisionally recognised among provisions for risks and charges.

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 OTA 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 Publiacqua 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 GesesaSpA and in the municipalities of Termoli and Campagnano with Acea Molise SpA.

Finally, note that since 2019, the Acea Group also distributes gas in Abruzzo, in the provinces of Pescara and Aquila.

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 December 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. The agreement calls for the payment of 10% of the price to 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.

We can inform you finally that, as regards the Public Lighting service, following the opinion given by the AGCM (Antitrust Authority) in Bulletin no. 49 of 14 December 2020, Roma Capitale began checking the conditions of congruity and economic convenience of the performance terms pursuant to the service contract between the Administration and Acea SpA (and for it areti) compared with the terms pursuant to the CONSIP – Luce 3 Convention and, in addition, on the basis of the positions expressed by the AGCM in the said opinion, expressed perplexities on the legitimacy of the award to Acea SpA itself. On 8 February 2021, with a note ref. DG 1585/2021, Roma Capitale communicated the results of the said checks, affirming definitively “the congruity and convenience of the economic terms currently in being with respect to the qualitative and economic parameters of the CONSIP – Luce 3 Convention” and confirming “the correctness of the prices applied for the Public Lighting service”, overcoming definitively all reserves on the congruity of the prices charged in the context of the contractual relationship in being between Roma Capitale and Acea SpA. In the same note, the Administration therefore ordered the restart of the procedures for payment of Acea’s ascertained receivables in relation to the service contract. We can note that the said communication regards the correctness of the prices charged, without affecting the Administration’s intention, already manifested, to terminate the relationship with Acea to call for tenders and thus make a new award for the Public Lighting service.

INTEGRATED WATER SERVICE

Lazio – Acea Ato 2SpA (OTA 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 OTA 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 2020 the territory managed has not undergone changes compared to 31 December 2019.

While awaiting definition of the tariff related to the third regulatory period (four years 2020-2023) under the terms of ARERA Resolution 580/2019/R/idr (MTI-3), Acea Ato 2 as provided for applied, starting from 1 January 2020, the tariff of the previous year adjusted as per paragraph 7.2 lett. a) of the said Resolution on the basis of the tariff multiplier resulting from the Economic-Financial Plan already approved at the moment of the 2018-2019 tariff update. As of March 2020, the application of the new tariff structure approved by Resolution no. 4/2019 by the Conference of Mayors at its meeting of 11 November 2019 pursuant to ARERA Resolution no. 665/2017/R/idr (TICSI – Integrated Text for Water Services Charges) was initiated with effect from 1 January 2019. The application of the new tariff structure began in March 2020 to enable the activity of counting the number of components of each resident domestic user account of the OTA 2.

The most significant changes in the TICSI concern residential households, for which the number of residents in the household is introduced as a key factor in the calculation of expenditures. The service fee (fixed and variable portions) is calculated on the basis of the number of residents who make up the household as communicated by the customer. The application of the tariff based on the effective number of components is backdated to 1 January 2019 for users that made this information available by the end of February 2020, while the data acquired later will take effect from the communication date and up to that date, in accordance with the provisions of the regulation at the national level, the standard per-capita criterion is applied, that is considering a standard resident domestic user of three components.

In relation to the tariff update for the four years 2020-2023, the Mayors' Conference of the OTA 2 Central Lazio – Rome after a first adjournment resolved at the session on 4 November, on 27 November approved the tariff proposal prepared by its Operational Technical Secretariat (OTS) in agreement with Acea Ato 2, supplemented with the amendment voted unanimously during the same session. This amendment provides for an increase in the Supplementary Water Bonus, which will be maintained alongside the national bonus, increasing it from the € 8 million already provided for to € 17 million over the four years, also in consideration of the emergency situation determined by the pandemic; the amount may be increased further if it is found to be insufficient, while in the case of excess this can be allocated to reduce the future tariff adjustments in order to contain the tariff increases. Again in consideration of the emergency situation, up to 31/12/2021 unless extended, users admissible at the moment of the request for the contribution with ISEE (Equivalent Economic Situation Indicator) within the limits set by ARERA will be able to access, exclusively to covers earlier arrears, a further one-off amount up to three times the ordinary value. The amendment provides also for an expansion of activities connected with network reclamations, in order to protect water resources and limit losses, The documents accompanying the tariff application (among the main ones action programme with evidence of the Strategic Work Plan, Economic and Financial Plan, economic and technical data required by the Authority, Resolutions on tariff arrangement) are currently being assessed by the Authority.

In relation to the aforementioned **water bonus**, we can note also the update pursuant to ARERA Resolution 499/2019/R/com of the related Implementation Regulation for the OTA 2 Central Lazio Rome, approved by Resolution no. 2-19 of the Mayors' Conference of 15/04/2019. The new provisions are valid for the year 2020.

With reference to the other significant issues that emerged, it should be noted that the appeals against Resolution 585/2012 and subsequent Resolutions were partially accepted by the Lombardy regional administrative court, a ruling against which both the Company and ARERA filed an appeal. After a series of public hearings and postponements due to the Covid-19 emergency, the new public hearing was set for 10 December 2020, inviting the parties to: 1) file documents by 19 November 2020; 2) file briefs by 24 November 2020; 3) file replies by 28 November 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 Regional Administrative Court 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 Chairperson. In application of article 84 of Italian Decree Law 18/2020 (suspension of procedural deadlines for Covid-19) the procedural deadlines have been suspended.

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. In application of article 84 of Italian Decree Law 18/2020 (suspension of procedural deadlines for Covid-19) the procedural deadlines have been suspended.

The revenues for the period amounting to € 655.2 million were calculated according to ARERA Resolution 572/2018: they include the estimate of the adjustments of passing items and the FONI component (€ 53.5 million) while the bonus related to commercial quality is zero.

Lazio – Acea Ato 5SpA (OTA 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 OTA 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 OTA 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.

With reference to 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 OTAA 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 OTAA 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 **tariffs**, on 10 March 2021, the Conference of Mayors for Optimal Territorial Area Authority no. 5 – Southern Lazio (hereafter, “OTAA 5”), approved the Tariff Structure for the regulatory period 2020-2023 with Resolution 1/2021.

This could be in contrast with the tariff adjustment request, prepared pursuant to art. 5, para. 5.5 of Resolution ARERA 580/2019/R/idr, containing the regulatory framework for the 2020-2023 third regulatory period, sent by Acea Ato 5 to ARERA on 15 December 2020, given the continuing inertia coming from OTAA 5. In fact, note that:

- the deadline for tariff approval by the competent entities, based on the provisions of Resolution ARERA 580/2019/R/idr and subsequent additions made by Resolution ARERA 235/2020/R/idr was set for 31 July 2020;
- the OTAA 5 Operational Technical Secretariat (hereafter, “OTS”) had undertaken to convene the Conference of Mayors to approve the 2020-2023 tariff structure by 15 December 2020 (OTS file no. 4596 of 27/10/2020)

Notably, the Tariff Structure approved by the Conference of Mayors on 10 March 2021 shows, for 2020-2023, significant differences in reference to operating costs and the tariff multiplier.

Revenues for the Integrated Water Service are determined on the basis of the new water tariff method (MTI-3), as approved by the Authority (ARERA) with its Resolution 580/2019/R/idr of 27 December 2019 and amount to € 80.7 million, including the estimate of adjustments for pass through items and the FoNI component of € 7.9 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 OTAA 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 OTAA 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 OTAA 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 OTAA 5 and the Company signed report no. 1 in which the parties expressed their mutual willingness to open a Conciliation Board on:

- judgement pending with the Court of Frosinone, docket number 1598/2012, relative to concession fees from 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. The Board has proposed recognition of this debt, with the consequent recognition of a contingent liability in the Financial Statements;
- 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;
- recognition of the receivable due to the Operator (€ 10,700,000.00) and 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. The Board proposed recognition of this receivable, but the case would not have any impact on the Financial Statements, given that the item in question is already recognised;
- compensation of damage suffered by Acea Ato 5 as a result of delays in the delivery of services by the Municipalities of Cassino, Atina and Paliano, for which economic quantification is difficult and which, therefore, would not be paid to the Operator;
- compensation for damages due to the non-handover of the ASI and Cosilam plants, quantified in the amount of € 2,855,000.00 (which the Operator will renounced against recognition of a payable for € 10,700,000.00);
- recognition of penalties totalling € 10,900,000.00 applied by OTAA 5 against the Operator and annulled by the Latina Regional Administrative Court by judgement no. 638/2017; A partial recognition of € 4,566,000.00 was proposed against compensatory work which the Operator would undertake to carry out under its own expense. The alternative would be to compensate for these charges by decreasing tariff adjustments which, however, would make it necessary to recognise a contingent liability of the same amount in the Financial Statements;
- recognition of interest on the delayed payment of concession fees on the part of Acea Ato 5, assessed in the amount of €

650,000.00. The Board has proposed recognition of this debt, with the consequent inclusion of the financial expenses in the Financial Statements;

- request for an Operator repayment plan relative to the Area Authority for debt positions relating to the concession fee for 2013/2018 which, as at 30 June 2019, amount to around 10,167,000.00. The Board proposed that this item, already recognised in the Financial Statements, be offset by the recognition of a credit of € 10,700,000.00;
- reconstruction of the 2012/2018 concession fees following EGA Resolution no. 1 of 26 March 2018 (economic valuation € 12,799,000.00), which would reduce the adjustments for bills to be issued from 2020.

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 an investigation 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 Chairperson 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 OTAA 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 OTAA 5 and Acea Ato 5 and that, moreover, the Chairperson 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.

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-Vesuvianoo)

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-Vesuvianoo Area Authority. Gori pays a fee to the grantor of the concession (the Sarnese-Vesuvianoo 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 OTA 3 in the Campania Region.

Tariffs

On 18 December 2020, as the Campania Water Authority had not yet sent ARERA the Regulatory Framework for 2020-2023, in compliance with article 5.3 of the Resolution ARERA 580/2019/R/idr as amended, Gori presented a request for an update to the Regulatory Framework for the four year period from 2020-2023, in compliance with articles 5.5 and 5.6 of MTI-3 and point 3 of Determination 1/2020, in order to guarantee continuity in the management of the IWS in the Sarnese-Vesuvianoo District Area and, therefore, maintenance of the relative economic/financial balance and implementation of the projects and activities already defined through the commitments made between the Operator, the Campania Region and the Campania Water Authority with the aim of improving the efficiency of the District's IWS, as well as improving and protecting service levels. Additionally, the proposed Regulatory Framework guarantees transfer and improved efficiency of the "Regional Works", that is the water infrastructure falling under the OTA3 still managed by the Campania Region and listed in Regional Council Resolution 243/2016, with the continued employment and placement, always with an eye to improving the efficiency of the IWS, of personal assigned to Regional Works, in compliance with the methods established in the agreements made with the unions, based on the aforementioned Resolution 243/2016 and the related Framework Agreement of 3 August 2018.

Tariffs: third regulatory period update of the tariff arrangements for the Integrated Water Service

On 18 December 2020, Gori presented a request for a tariff adjustment for the period from 2020-2023, in compliance with articles 5.5 and 5.6 of ARERA Resolution ARERA 580/2019/R/idr and point 3 of Determination 1/2020.

The request calls for the update of the revenues constraint recognised to the manager of the IWS in the Sarnese-Vesuvianoo Area and the corresponding "tariff multipliers" for financial years 2020-2023, respectively equal to: 2020 = 1.020000, 2021 = 1.081200, 2022 = 1.135260, 2023 = 1.192023.

Further, with the aim of guaranteeing the social sustainability of spending on the IWS on the part of users, while still falling under

Quadrant VI of the regulatory matrix, the Operator, for the purposes of preparing the Economic Financial Plan (EFP) and, specifically, to define the schedule for recovering tariff adjustments, in consideration of the aforementioned schedule for transferring the Regional Works, proposes tariff increases below the applicable maximums, recognised in the regulatory matrix pursuant to article 5.1 in annex A to Resolution ARERA 580/2019/R/ldr

The tariff adjustment proposal for the third regulatory period includes the following determinations:

- tariff multipliers are proposed for an amount that is below the allowed maximum, equal to 2% for 2020, 6% for 2021 and 5% for 2022 and 2023. In any case, the tariff multipliers proposed for 2020-2021 are less than those established in the previous EFP pursuant to the Resolution made by the Campania Water Authority Extraordinary Commission, no. 39/2018 (increases equal to 8%);
- the project schedule proposed and sent to the Campania Water Authority on 14 September 2020, sent by Gori to the Operator numbered 49298 and titled “Proposal of essential works”, offers a proposal for essential works which can be paid for through the tariff system, thereby guaranteeing for at least the 2020-2023 regulatory period, a level of investment comparable with that achieved in 2019 and, with the requirements assuming the € 100 million bank loan stipulated to carry out the same. It should be noted that the works plan in question also includes financed investments for 2020-2023 which exclusively refer to projects for which the Financing Decree has already been issued to cover the costs;
- relative to the hypothesis of transferring Regional Works, the update proposal prepared took into account the works and infrastructure already transferred to Gori and left mainly unchanged the transfer methods for facilities still under the management of the Campania Region, as established in the Operational Agreement signed by Gori, the Campania Region and the Campania Water Authority, with the establishment of the schedule to transfer the Regional Works, which was further updated by the Framework Amendment to the Operational Agreement of 2018, signed on 20 November 2020;
- with regards to rebalancing measures, the proposed update to the regulatory framework took into account the Operating Agreement which 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-Vesuvianoo S.r.l. for € 20 million; Additionally, the effects deriving from the signing of the Framework Amendment of November 2020 were taken into consideration, to maintain economic and financial balance in the management of the IWS in the Sarnese-Vesuvianoo District Area, as established under article 4 of the Operational Agreement;
- 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/ldr and to the technical quality standards as per Resolution 917/2018/R/ldr, i.e. the $Opex_{QC}$ and $Opex_{QT}$ 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 proposed for 2020 - 2023 are equal to $Opex_{QC}$ € 3,225,806 and $Opex_{QT}$ € 615,259; These amounts are recognised, pursuant to articles 18.9, letter a) of annex A to Resolution 580/2019/R/ldr and 18.8 of the same, in the maximum amount of charges effectively recognised by the Operator in 2019. Further, relative to $Opex_{QC}$, a specific request was pre-

resented to recognise additional charges relative to aspects linked to contractual quality objectives, pursuant to Resolution ARERA 547/2020/R/ldr pursuant to letter b) of article 18.9 in annex A to Resolution 580/2019/R/ldr”, quantifying greater costs for the years 2020-2023 in the amount of: 2020: € 90,000, 2021: € 140,836; 2022: € 140,836 and 2023: € 140,836;

- for Op_{social} , pursuant to that established under article 23-ter of annex A to Resolution 918/2017/R/ldr, a quantification similar to that used in the previous period from 2018-2019 was proposed again, in the hypothesis that the Area Governing Body decided to maintain the pre-existing subsidies for 2020 and 2021, to cover charges linked to the maintenance of improved benefits with respect to the minimum ones established under national regulations (the integrated water bonus). To quantify Op_{social} it was also necessary to consider the changes introduced by ARERA with Resolution 3/2020/R/ldr, which partially modified the TIBSI, for the purposes of quantifying the social water bonus, establishing the methods for determining the amount compensating for expenses suffered. It should be noted that disbursement of the integrated water bonus is subordinate to determinations made by the Campania Water Authority, which include identification of the Group of beneficiaries with the right to the bonus and methods for accessing it. For the purposes of the proposed tariff, pursuant to the Operator’s request, prudentially and while awaiting the EIC’s determinations, the calculation used an Op_{social} for maintenance or the introduction of possible improved benefits of € 2,533,746 for 2020-2021 and € 2,000,000 for 2022-2023;
- the component Op_{mis} covering costs suffered to adjust to the new regulations in terms of unpaid amounts relative to REMSI, article 18.11 of annex A, for this was proposed the amount quantified “in the request for quantification of the component Op_{social} for 2020-2023, in consideration of the new regulations on unpaid amounts introduced by REMSI under paragraph 18.10 of annex A to Resolution 580/2019/R/ldr and supporting the request for recognition of the component Op_{mis} for 2020-2023, pursuant to paragraph 18.11 of annex A to Resolution 580/2019/R/ldr”. Hence, components Op_{mis} and Op_{social} -7.3 letter A of REMSI as included in the calculation are equal respectively to: Op_{mis} 2020 = 1,697,905, 2021 = 2,870,204, 2022 = 3,476,115 and 2023 = 3,411,444, while Op_{social} are equal to: 2020 = 69,988, 2021 = 62,989; 2022 = 56,690 and 2023 = 51,021;
- with regards to recognition of additional costs for unpaid amounts in the context of the update to the proposed regulatory scheme, prudentially and to temper economic/financial balance for management with the social sustainability of the tariff and, without prejudice to subsequent assessments to be verified during the biennial review adjustment, for the purposes of the proposed tariff, the costs of unpaid amounts have been calculated in the amount of 7.1%, applied to the annual turnover for the year (a-2), that is in the maximum amount recognised pursuant to article 28.2 of MTI-3 for managers located in the regions of the South and the Islands. Nonetheless, the request for recognition of the cost of unpaid amounts pursuant to article 28.3 of Resolution ARERA 580/2019/R/ldr, including quantification of the component CO_{dil} pursuant to the article in annex A of Resolution 580/R/ldr, presented by Gori, on the basis of the calculation of the UR24 rate for the years 2018-2019, recognition was requested for the same years in the amount of 10%, with respect to that recognised in the context of the Commission’s Resolution 39/2018, to adjust for greater costs. Additionally, the same request asked for recognition of greater costs for unpaid amounts for the years 2020-2021, in the amount of 10%, pursuant to article 28.3 of Resolution AR-

ERA 580/2019/R/idr, as well as recognition of the component CO_{dill} pursuant to article 28.4 of annex A to Resolution ARERA 580/2019/R/idr;

- for the component Op_{covid} , to deal with the health emergency due to Covid-19, Gori presented a specific request for recognition of forecast costs to the Campania Water Authority, pursuant to article 18.12 of annex A to Resolution 580/2019/R/idr, as amended;
- the adjustment component R_{cappr} was calculated as € 165.3 million, equal to the amount of the adjustments pursuant to Commission Resolution 39/2018;
- for the component OP^{new} , the costs considered in the proposed tariff in question refer to the grounded requests for recognition of the component (three requests presented), pursuant to paragraph 18.2 of MTI-3, presented by Gori to the Campania Water Authority based on the change in the scope of management due to the transfer of the water abstraction and purification works from the Campania Water Authority, following implementation of the transfer schedule established in the Operational Agreement of November 2018 and the operating costs for management of the water pumping plants known as “Monaco Aiello” and “Vigna Caracciolo”, already recognised and included in the calculation in the previous tariff structure, pursuant to Commission Resolution 15 of 30 June 2015 and the subsequent documents also prepared by the Operator and, finally, approved with Resolution ARERA 104/2016/R/idr. Parameter values were also defined in these same requests to use for quantifying costs suffered or to be suffered for sewer works transferred (networks and systems), for those being constructed and subsequently subject to transfer to Gori from other entities (municipalities, ARCADIS) and those constructed by Gori itself. It should be noted that in the context of the requests presented, Gori proposed that greater external costs be determined for the new scope of management for all works and infrastructure which had been managed for at least a year.

The revenues at 31 December 2020, which total € 201.2 million, were determined on the basis of the Tariff Update Request presented by the Operator and pursuant to Resolution ARERA 580/2019/R/idr which proposed, among other things, a ceiling of 1.02 for the year 2020, highlighting that, in order to achieve financial balance in management of the Sarnese-Vesuvianoo District Area in compliance with the tariff increase constraint and remaining within the maximum limit for annual changes, a remodulation of the GRC was proposed, through regulatory postponement of the portion of costs exceeding the maximum limit.

Verification of parameters to identify the regulatory quadrant and the presence of OP^{new} relative to systematic changes in operator activities in the “presence of the supply of a new service (e.g. purification or sewers for an operator whose management was previously limited to aqueduct services or, in other cases, in the presence of expansion with an upstream supply chain), pursuant to article 18.2, 18.3, letter c) and 18.4 of annex A to Resolution ARERA 580/2019/R/idr, determined placement in the VI regulatory quadrant. Nonetheless, as already noted, in order to guarantee the social sustainability of the tariff, while respecting economic/financial balance in managing the IWS, Gori proposed a tariff increase lower than the maximum limit allowed under the regulatory method MTI-3.

Also note, for entirely prudential purposes, as approvals had not yet been received from the relevant bodies of the Campania Water Authority, when calculating the GRC at 31 December 2020 the components Op_{social} , Op_{mis} and Co_{dill} were not included.

Additionally, the purely regulatory components such as $\Delta Savings$ (relative to energy efficiency) and $RC_{Attiv b}$ were considered.

Components $Opex_{QC}$ and $Opex_{QT}$ were calculated in the amount of that requested in the relative cost recognition request, within the limit of that recognised in 2019.

For the component Op_{covid} costs effectively suffered at 31 December 2020 were included in the calculation of the relative GRC.

The OP^{new} included in the calculation, also in this case, as approvals had not been received for the requests from the relevant bodies of the Campania Water Authority, these were quantified in the same manner as in previous years, and therefore based on the principle of full cost recovery, the costs effectively suffered for systems transferred at 31 December 2020 are covered, as demonstrated in the accounting documents.

At 31 December 2020, the works transferred to the Operator are: 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, the transfers in December 2019 relating to the Medio Sarno 3 purification plant and the Sorrentine Peninsula water area and finally the transfer of the Foce Sarno treatment plant in December 2020.

External operating costs $Opex_{end}$ were defined based on that established in article 17.1 of annex A to Resolution ARERA 580/2019/R/idr when measures were introduced to incentivise efficient behaviour by operators; to that end, calculation of the per capita level of operating costs suffered by Gori in 2016 placed Gori in class B1 of the regulatory matrix pursuant to article 17.1 of Resolution ARERA 580/2019/R/idr, while calculation of estimated operating costs, using the statistical model found in article 17.2 of annex A to Resolution ARERA, transformed to per capita terms, placed the operator in Cluster A of the regulatory matrix. Therefore, Gori is placed in quadrant 4 of the regulatory matrix, which therefore leads to $Opex_{end}$ of € 74.6 million.

The GRC was also updated pursuant to art. 27.1 of annex A of ARERA Resolution no. 580/2019/R/idr which envisages that, for the purposes of determining the GRC for the 2020-2023 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 2020, 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 and also confirmed for 2020.

The pertinent cost at 31 December 2020 on the COws relating to regional water supplies, according to the principle of full cost recovery, was approximately € 10.6 million, entered for the same amount in GRC 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 2020, according to the principle of full cost recovery, amounting to approximately € 10.7 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.

In 2020 there was a net recovery of adjustments equal to € 7 million. Therefore, the tariff adjustments, as of 31 December 2020, amount to € 143.5 million.

Campania – Gesesa SpA (OTA 1 – Calore Irpino)

The Company operates in Optimal Territorial Area OTA 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 120,000 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 the two year period 2019-2020, Gesesa 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 OTA 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.

Please note that in May 2020, following a decision of the Public Prosecutor at the Court of Benevento, 12 purification plants of the company were placed under seizure with the appointment of a judicial administrator to manage them. Criminal proceeding 5548/16 R.G.N.R., which involves various Gesesa executives and employees and is currently in the preliminary investigation stage, involves management of the purification system in the Benevento area and a possible connection with pollution of bodies of water in that same area. Based on that claimed, the accused are alleged to have, in particular, committed fraud in public services, pursuant to article 356 of the Criminal Code) and the crime of environmental pollution, pur-

suant to article 452-bis of the Criminal code which, in the Public Minister’s opinion, is a direct consequence of the negligent management of the purification plants.

The Public Prosecutor’s Office requested the preventive seizure of 12 purification plants managed by the Company, assigning them to a Judicial Administrator. In the context of its powers, the Judicial Administrator carried out a detailed audit in order to examine the plants and identify solutions and actions to improve the purification results of the same.

The Company indicated its willingness to suffer the costs for the activities indicated in the final report for this audit and, with a provision of 25 January 2021, the examining judge for the Court of Benevento gave the go ahead to execution of these activities, which will be begun shortly by the Judicial Administrator.

Additionally, the Company had a private audit carried out with reference to another 18 purification plants managed and not subject to seizure, so as to identify any actions needed to improve purification results.

Relative to updating tariffs, in the biennial tariff update proposal for 2016/2019, pursuant to Resolution 918/2017, the Company implemented the results of the ARERA audit contained in determination DSAI/26/2018/idr, making the necessary changes to the previous tariff structure for 2016-2017. Such conduct should reasonably be positively assessed in the determination of any sanctions by the Authority, currently not determinable by the company and relative to which no specific provisioning has been carried out. At present, provisions and decisions by the Authority are still awaited.

As a result of the above, the items of the Financial Statements concerned – in particular revenues and related customer receivables – were recognised in 2020 on the basis of the Guaranteed Revenue Constraint (“GRC”) forecast for 2020 and currently being approved by the EIC.

It should be noted that with Resolution 580/2019/R/idr of 27 December 2019 ARERA approved the water tariff method for the third regulatory period (MTI-3). Following this Resolution, in agreement with the EIC data collection was initiated for the preparation of the tariff proposal for the period covered by the Resolution (2020-2023).

Tuscany – Acque SpA (OTA 2 – Basso Valdarno)

The management agreement, which came into force on 1 January 2002 with an initial 20-year duration was signed on 21 December 2001, then in October 2018 it was extended to 2031. In accordance with said agreement, the Operator took over the exclusive Integrated Water Service of OTA 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.

Relative to tariffs, note that on 18 December 2020 EGA approved the proposed 2020 tariff, based on Resolution ARERA 580/2019/R/idr of 27 December 2019. The amount for tariff revenues for 2020 represents the GRC value recognised to the operator. Included amongst revenues are adjustments for systemic changes recognised in the aforementioned proposal and not booked in previous Financial Statements: their value totals approximately € 0.7 million. Total revenues of the period, including adjustments to pass-through items, amounted to € 164.0 million (€ 73.8 million in the Group).

Finally, it is noted that on 24 January 2019 the new loan agreement became effective. The new loan was established 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.

Tuscany – PubliacquaSpA (OTA 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 OTA 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.

Total revenues for the year, including adjustments to pass-through items, amounted to € 247.7 million (€ 99.1 million in the Group). Revenues also include the Fo.NI. component for € 30.2 million (Group share € 12.1 million).

In terms of sources of financing, it should be noted that following the extension of the concession to 2024, 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.

Tuscany – Acquedotto del Fiora SpA (OTA 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 OTA 6, consisting of public services covering the collection, abstraction and distribution of water for civil use, sewerage and wastewater treatment. The concession term is 25 years from 1 January 2002, and in 2020 was extended until 2031. Via the vehicle Ombrone SpA, in August 2004 Acea completed its acquisition of a stake in the Company's capital.

With reference to tariffs, 2020 is the first year of the first two-year period into which the 2020-2023 water regulatory cycle is divided (MTI-3) in the scope of application of Resolution ARERA 580/2019/R/ldr (MTI-3) of 27/12/2019 "Approval of the Water Tariff Method for the third regulatory period MTI-3", with which the Authority definitively governs tariffs for the period 2020-2023. On 27 November 2020, based on the actual data collected referring to the years 2018 and 2019 and the Investment Plan, the Tuscan Area Governing Body (AIT) approved the tariff revision proposal with the MTI-3 scheme, setting the GRC and the Theta of the years 2020-2023 and also redesigning the entire tariff profile until the end of the IWS concession (Deliberation of the Executive Council of the AIT no. 6/2020 of 27 November 2020). This tariff proposal was then sent to the Tuscan AGM by ARERA for final ratification and approved by ARERA on 2 March 2021. Total revenues of the period,

including adjustments to pass-through items, amounted to € 112.1 million and a share of FoNI equal to € 10.9 million.

The evolution of the regulated water framework in Italy, already outlined following 643/2013, had marked a fundamental point in favour of the stability and bankability of Operators with an increasing reassurance of the lending institutions, the Authority having established a formal guarantee of the achievement and maintenance of the current and future financial equilibrium of IWS management. With MTI-3, ARERA has essentially maintained the underlying logic of the previous tariff method and the basic principles to protect the continuity and financial sustainability of water management.

A regulatory system attentive to the calibration of financial flows related to the investments to be made is in fact an indispensable element to allow the Company to pursue its mission, as evidenced by the signing of the Structured Financing of 30 June 2015.

Relative to the structured financing obtained on 30 June 2015, in February 2020, after the conversations begun already in 2019, the Amendment to the Loan Contract was signed, which revised certain conditions continued in the existing contract; in particular:

- a time extension of the debt repayment plan, with the new maturity set for 31/12/2029;
- interest rate: 6-month Euribor plus 1.90%;
- amendment to the hedging strategy, establishing coverage of interest equal to 60% of the loan;
- autonomous first request guarantee for Acea SpA;
- agency fees: € 150,000 per year.

To guarantee coverage of interest rate risk for the period after the existing Interest Rate Swap derivatives contract expires, it was necessary to subscribe an additional four new derivative contracts, in addition to those existing, forward started Interest Rate Swap type, starting on 30/06/2022 and expiring on 31/12/2029, for which the fixed interest rate is set at 0.51%.

These contracts guarantee continuity for the hedging strategy established by the Loan Contract signed on 30/06/2015.

Umbria – Umbra Acque SpA (OTA 1 – Umbria 1)

On 26 November 2007 Acea was finally awarded the tender called by the OTA 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 OTAs 1 and 2.

As of 31 December 2020, the rate applied to users was determined on the basis of Water Tariff Method 2 (MTI-2) under Resolution no. 489 2018/R/ldr of 27 September 2018 with which ARERA approved the preparation of the 2018-2019 tariff update previously approved by the Assembly of Mayors of the AURI with Resolution no. 9 of 27 July 2018, according to the new criteria established with Resolution 665/17 (TICSI). Consumption in 2020 will be subject to adjustment once ARERA has approved the 2020/2023 tariff proposal resolved by AURI on the basis of Resolution 580/2019/R/ldr, or the water tariff method for the third regulatory period MTI-3. On the basis of the determinations of the ARERA, the revenues for the period were valorised for a total of € 81.5 million (Group share € 32.6 million), including the adjustment of passing items.

Progress of the procedure for approving the tariffs

With Resolution 580/2019/R/ldr, ARERA approved the tariff method for the third regulatory period 2020-2023 (MTI-3), setting 30 April 2020 as the deadline by which the area governing body or other competent entity should have submitted the relevant regulatory framework containing the tariff provisions for ap-

proval by the Authority. The same Resolution also defined the methods and timing of the application of fees to users related to the tariff approval process.

It should be noted that as a result of the Covid-19 emergency situation, which prompted the Authority to defer several deadlines envisaged by the regulation for the regulated sectors, the deadline of 30 April 2020 set in Resolution 580/2020 was postponed first to 30 June 2020 (Resolution 59/2020/R/com) and lastly to 31 July 2020 (Resolution 235/2020/R/idr).

However, pending the tariff update implementing the new MTI-3 tariff method, the tariffs calculated on the basis of the tariff multiplier resulting from the economic and financial plan already approved under the current tariff provisions remain valid for the year 2020 (i.e. the plan relating to the two-year update 2018-2019 approved by ARERA, or, as such approval has not yet taken place, the plan approved by the AGBs or competent entities).

With a specific communication to operators of 5 February 2020, ARERA noted that the checks relating to the proposals for the

two-year update of the tariff provisions for the years 2018 and 2019 submitted by AGBs pursuant to Resolutions 917/2017/R/idr and 918/2017/R/idr and not yet specifically approved by the Authority will be completed as part of the checks on the specific regulatory frameworks 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. In the same statement, ARERA also specified that for the two-year period 2018-2019 the tariff determinations adopted by the competent entities remain valid, which will be assessed as part of the quantification of the adjustment components referred to in article 27 of MTI-3 when approving the new regulatory framework.

The following table shows the updated situation of the procedure for approving IWS tariff provisions for Group companies relating to the 2016-2019 regulatory period, the 2018-2019 two-year tariff update, and tariff provisions for 2020-2023.

Company	Approval status (up to MTI2 "2016-2019")	Two-year update status (2018-2019)	Approval status MTI-3 2020-2023
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, ARERA approved the 2018-2019 tariff update with Resolution 572/2018/R/idr. On 10 December 2018, the Conference of Mayors adopted the provisions of the ARERA Resolution.	On 27 November 2020, the AGB approved the tariff for the 2020-2023 regulatory period with Resolution no. 6/2020. ARERA approval is awaited. The term of ninety days defined by Resolution 580/2019 expires at the end of February 2021.
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. ARERA has not yet given its approval.	On 14 December 2020, the Operator submitted a tariff updated request pursuant to article 5, paragraph 5.5 of ARERA Resolution 580/2019/R/idr MTI-3 of 27 December 2019. On 10 March 2021, the OTAA Conference of Mayors approved the proposed tariff for 2020-2023, with Resolution 1/2021. ARERA has not yet issued a warning to the AGB and the AGB has not yet called the Conference of Mayors for tariff approval.
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. ARERA has not yet given its approval.	On 18 December 2020, the Operator submitted a tariff updated request pursuant to article 5, paragraph 5.5 of ARERA Resolution 580/2019/R/idr MTI-3 of 27 December 2019. ARERA has not yet issued a warning to the EIC and the EIC has not yet called the Conference of Mayors for tariff approval.
Acque	On 05 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 Executive Council 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.	On 18 December 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 7. The period for ARERA approval ends March 2021.
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. 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.	On 7 December 2018 the AIT approved the 2018-2019 tariffs with the extension of the 3-year concession. ARERA approved the 2020-2023 tariff provisions and the 2018-2019 two-year update with Resolution 59/2021 of 16 February 2021.	On 26 June 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 3. ARERA approved the 2020-2023 tariff provisions with Resolution 59/2021 of 16 February 2021.

(follows)

Company	Approval status (up to MTI2 "2016-2019")	Two-year update status (2018-2019)	Approval status MTI-3 2020-2023
Acquedotto del Fiora	<p>On 05 October 2016, the AIT approved the tariff with recognition of the $Opex_{qc}$.</p> <p>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.</p>	<p>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 by the AIT Executive Council on 1 July 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.</p>	<p>On 26 November 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 6. The period for ARERA approval finishes at the end of 2021.</p>
Geal	<p>On 22 July 2016, the AIT approved the tariff with recognition of the $Opex_{qc}$.</p> <p>On 26 October 2017, with Resolution 726/2017/R/idr ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.</p>	<p>On 12 July 2018 ARERA approved the 2018-2019 tariff update proposed by AIT.</p>	<p>On 28 September 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 4. The period for ARERA approval finished at the end of December 2020.</p>
Acea Molise	<p>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.</p>	<p>The Company has submitted the data to the competent parties/AGB in order to update the 2018-2019 tariff.</p> <p>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 early 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.</p> <p>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 pre-existing Agreement to the Agreement template, extending its expiry to 31 December 2021, and confirmed the tariff increase (theta) and the Guaranteed Revenue Constraint (GRC) for 2018 and 2019, also revising the 2016-2019 proposal. ARERA has not yet given its approval.</p>	<p>Discussions with the EGAM are in progress for the 2020-2023 tariff provisions.</p>
Gesesa	<p>On 29 March 2017 with Resolution no. 8 of the Extraordinary Commissioner the OTAA1 approved the tariff provisions for the years 2016-2019. Currently approval by the ARERA is still pending.</p>	<p>The Company submitted the documentation relating to the 2018-2019 tariff review to the Area Authority and the preliminary investigation by the technical offices of the competent AGB (EIC-Campania Water Authority) was completed at the end of February 2020. The final approval of the EIC Executive Committee has not yet been given.</p>	<p>On 29 December 2020, the Operator submitted a tariff updated request pursuant to article 5, paragraph 5.5 of ARERA Resolution 580/2019/R/idr MTI-3 of 27 December 2019. ARERA has not yet issued a warning to the AGB and the AGB has not yet called the Conference of Mayors for tariff approval.</p>
Nuove Acque	<p>On 22 June 2018, the AIT Executive Council approved the rates.</p>	<p>On 16 October 2018 with Resolution 520 ARERA approved the 2018-2019 tariff update proposed by the AIT.</p>	<p>On 27 November 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 5. The period for ARERA approval finishes at the end of 2021.</p>

(follows)

Company	Approval status (up to MTI2 "2016-2019")	Two-year update status (2018-2019)	Approval status MTI-3 2020-2023
Umbra Acque	On 30 June 2016, the AGB approved the tariff with recognition of the $Opex_{qc}$. The ARERA then approved them in Resolution 764/2016/R/idr dated 15 December 2016.	In its session of 27 July 2018, the AURI Assembly approved the 2018-2019 tariff update. The ARERA approved the 2018-2019 tariffs with Resolution no. 489 of 27 September 2018.	AURI approved the 2020-2023 tariff provisions with Resolution no. 10 of 30 October 2020. ARERA approved the same with Resolution 36/2021 of 02 February 2021.
S.I.I. Terni S.c.a.p.a.	On 29 April 2016, with Resolution no. 20, AURI approved the tariff multiplier for the 2016-2019 four-year period and with determination no. 57 it approved the adjustment for previous items. ARERA approved the 2016-2019 tariff provisions with Resolution 290/2016 of 31 May 2016.	With Resolution of the Board of Directors of AURI no. 64 of 28/12/2018, approval was given to the 2018-2019 two-year update. ARERA approved the biennial adjustment 2018-2019 with its Resolution of 20 September 2018 464/2018.	AURI approved the 2020-2023 tariff structure with the Resolution by the Assembly of Mayors 12 of 30 October 2020. ARERA provided approval with Resolution 553/2020 of 15 December 2020.

Revenues from the Integrated Water Service

The table below indicates for each Company in the Water Segment the amount of revenue in 2020 valued on the basis of the new

MTI-3 Tariff Method, since discussions with the respective AGBs are ongoing. The data also include the adjustments of passing items and the Fo.NI component.

Company	Revenue from the IWS (pro quota values in € million)	Fo.NI. (pro quota values in € million)
Acea Ato 2	655.2	FNI = 42.5 $AMM_{FoNI} = 11.0$
Acea Ato 5	80.7	FNI = 3.7 $AMM_{FoNI} = 4.2$
Gori	199	$AMM_{FoNI} = 3.2$
Acque	73.8	$AMM_{FoNI} = 4.3$
Publiacqua	99.1	$AMM_{FoNI} = 12.1$
AdF	112.1	$AMM_{FoNI} = 10.9$
Gesesa	13.4	$AMM_{FoNI} = 0.1$
Geal	8.3	$AMM_{FoNI} = 0.8$
Acea Molise	5.3	-
S.I.I.	16.1	FNI = 0.2 $AMM_{FoNI} = 1.8$
Umbra Acque	32.6	-

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 In-

tegrated Water Services under the terms of two thirty-year concession agreements. Further details are provided in the section *Service concession report*.

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 2020 of the Acea Group (compared to those of the previous year) deriving from the most significant financial relations.

€ thousand	Revenues		Costs	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Supply of fresh water	41,862	40,698		
Supply of electricity	35	56		
Public Lighting service contract	33,666	40,631		
Public Lighting contract interest	7,000	5,117		
Water maintenance service contract	185	228		
Monumental fountain service contract	185	228		
Concession fee	0	0	26,333	26,115
Lease fees	0	0	110	110
Taxes and duties	0	0	3,857	3,595

Reference should be made to note 25.b for details on the impact of these transactions, while the table below summarises the changes in receivables and payables.

€ thousand	31/12/2019	Collections/payments	Accruals 2019	31/12/2020
Receivables	234,898	(125,393)	83,223	192,729
Payables	(201,239)	92,767	(112,844)	(221,316)

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

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 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	2,408	1,343	3,405	5,032
ATAC SPA	116	153	7,728	1,132
ROMA MULTISERVIZI SPA	(1)	0	0	0
Total	2,523	1,496	11,134	6,164

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 conducted 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.

Note that during the year, joint venture agreements were signed which led to the Acea Group acquiring, from the Caltagirone Group, 49.9% of Energia SpA, a photovoltaic company which is a subsidiary of the Caltagirone Group. As illustrated in the *Report on Operations*, the company was acquired on 27 May 2020 and is consolidated at equity.

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 2020.

€ thousand	Revenues	Costs	Receivables	Payables
Caltagirone Group	104	0	(9)	(3)

ACEA GROUP AND SUEZ ENVIRONMENT COMPANY SA GROUP

There were no relations with companies in the Suez Group as at 31 December 2020.

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	31/12/2020	Of which with related parties	Impact	31/12/2019	Of which with related parties	Impact
Financial assets	38,781	21,156	54.60%	47,202	26,144	55.40%
Trade receivables	981,509	72,080	7.30%	1,035,462	99,798	9.60%
Current financial assets	379,859	143,097	37.70%	113,960	121,968	107.00%
Trade payables	1,627,119	77,230	4.70%	1,524,876	111,319	7.30%
Financial payables	419,822	133,714	31.90%	408,675	79,616	19.50%

IMPACT ON THE INCOME STATEMENT

€ thousand	31/12/2020	Of which with related parties	Impact	31/12/2019	Of which with related parties	Impact
Consolidated net revenues	3,379,392	103,822	3.1%	3,186,136	87,443	2.7%
Consolidated operating costs	2,254,577	53,743	2.4%	2,185,306	39,349	1.8%
Total financial (costs)/income	(88,018)	1,910	(2.2%)	(95,419)	4,787	(5.0%)

IMPACT ON THE CASH FLOW STATEMENT

€ thousand	31/12/2020	Of which with related parties	Impact	31/12/2019	Of which with related parties	Impact
Increase in receivables included in the working capital	25,854	27,718	107.2%	(118,892)	(15,816)	13.3%
Increase/decrease in payables included in the working capital	(174,236)	(34,089)	19.6%	41,729	(13,180)	(31.6%)
Collections/payments deriving from other financial investments	(1,034,008)	(16,142)	1.6%	(177,824)	(30,620)	17.2%
Collected dividends	29,848	29,848	100.0%	16,787	16,787	100.0%
Decrease/increase in other short-term financial debts	(20,795)	54,098	(260.2%)	(89,136)	78,989	(88.6%)
Dividends paid	(93,212)	(93,212)	100.0%	(73,795)	(73,795)	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 filed by the Revenue Agency with the Court of Cassation against the cited judgement 419/04/14: SAO (now Acea Ambiente) filed its appearance with a defence statement and simultaneous conditional cross-appeal, 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. S.r.l. (now Acea Ambiente s.r.l.)

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 for the years from 2008 to 2012 on the taxation 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 litigation is now pending before the Court of Cassation. With regard to the year 2013, the CTP rejected the appeal filed by the Company. 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 regards to the year 2011, the Regional Tax Commission, confirming the first level judgement, annulled the notification. The case is now pending with the Court of Cassation. With regards to the year 2012, the Provincial Tax Commission annulled the notice of findings and the Revenue Agency filed an appeal against this judgement. The Company is waiting for the date to be set for the second level hearing. For the year 2013, the CTP 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 S.r.l., 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 e Litigation (ex Elga Sud) 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 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 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 identified derive from application of articles 5 and 25 of Italian Legislative Decree 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. The Company challenged the aforementioned judgement and filed an appeal before the Regional Tax Commission.

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.

Lastly, it should be noted that the Company paid a third of the amounts ascertained for a total amount of € 3,311,335 during H1 2020.

On 19 January 2021, a public hearing was held regarding the assessments of IRES for 2013 and IRAP for 2014. The judgement has not yet been issued.

Customs verification of Umbria Energy SpA

In 2016, the Terni Customs Office, after completing an audit at the company relative to declarations of energy consumption for the years 2010 to 2012, issued a series of provisions in the form of payment orders and deeds issuing fines in the amount of € 1,410 thousand for the Province of Perugia and of € 862 thousand for the Province of Terni.

The Office claimed taxes had not been paid (excise and additional electricity taxes) and errors in the completion of consumption declarations.

The company promptly challenged these provisions with the relevant institutions.

In 2017, the Perugia Provincial Tax Commission rejected the appeal submitted by the Company arguing the substantive relevance of the conduct upheld 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 CTR, 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.

Management carried out the appropriate provisioning, reflecting the level of risk to which the Company is exposed on the basis of the opinion issued by an external professional, appointed to defend the Company.

At 31 December 2020 there are no new elements that would change the assessment of the risk inherent to the dispute in question and the provision has been kept unchanged with respect to the previous year.

OTHER ISSUES

Acea Ato 5 – Injunction Order requested for credit collection on the settlement agreement of 2007 with OTAA 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 OTAA 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 OTAA 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 OTAA.

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 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 OTAA 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 OTAA, 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 OTAA 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 proceedings were first postponed to 17 March 2020 and then automatically postponed to 11 September 2020. The judgement was further postponed, first to 15 December 2020, then to 12 February 2021 and finally to 26 March 2021. 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 case was then further postponed after a request by the parties, to 30 June 2021.

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 OTAA 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 identified 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 – 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 OTAS 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.

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. Lastly, a further postponement of the hearing to 15 December 2020 was ordered. The next hearing has been set for 2 March 2021.

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. Finally, the parties reached an amicable settlement for the reciprocal receivables relative to the 2012-2017 period, applying the same criteria already adopted when concluding the inter partes relations for the 2004-2011 period. Hence, the parties agreed to partially offset the reciprocal debtor positions, given that Acea Ato 5 has a debt due to the ASI Consortium totalling € 4,726,869.00, which Acea Ato 5 paid with an initial instalment of € 1,726,869.00 as of the date the agreement took effect, followed by 12 subsequent payments of € 250,000.00. An integral part of the Settlement Agreement is the commitment made by Acea Ato 5 to acquire, for pay, the water network owned by ASI, for an amount to be determined within the limits established in the Agreement in question, after an appraisal to be carried out by a third party hired by the OTS and without prejudice to the fact that the entire operation is subordinate to express consent from the Area Authority. The efficacy

of the agreement is further subordinate to approval from the respective Boards of Directors. Finally, note that the ASI Board of Directors approved the draft Settlement Agreement on 28 January 2021 and the same document was approved by the Acea Ato 5 Board of Directors on 8 March 2021. On 15 March 2021, the parties signed the Agreement.

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, on 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).

OTAA 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. The decision has not yet been issued.

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. Specification of the conclusions was most recently postponed to 25 June 2021.

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.

Quite unexpectedly, following the service of the order, on 12 March 2020 the seized third party filed an appeal against the enforcement, requesting a declaration of nullity of the order for the allocation of the seized sums.

By order dated 24 March 2020 and without a hearing, the Enforcing Judge ordered the suspension of the enforceability of the assignment order and set a hearing on 24 February 2021 to decide on whether to confirm, amend or revoke the measure. The Judge's official order has not yet been issued.

Acea SpA – Trifoglio S.r.l.

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. 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, 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 last postponed to 17 June 2021.

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 debeatur*, 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 judgement is still pending with the Rome Court of Appeals, regarding pay differences accrued between 2010 and 2014, proposed by the same workers. The judgement was suspended while awaiting the decision which the Cassation made concerning the *an debeatur* for the request (see above), ordinances issued in July 2019 and after which the judgement was again taken up. Currently, the next hearing has been postponed to March 2021, to allow negotiations aimed at settlement of the dispute. Further in December 2020, a settlement was reached with one of the six counterparties.

Most recently, two of the workers filed a quantification judgement relative to pay differences between 2014 and 2019. Challenges to the injunction orders issued in favour of the two workers are currently in course, with the hearing of appearance set for 14 June 2021.

Acea SpA – Municipality of Botricello

In 1995, the Municipality of Botricello transferred management of its Integrated Water Service to a temporary grouping of businesses, which later established itself as a consortium, known as Hydreco S.c.a.r.l.. In 2005, the Municipality sued, in the Court of Catanzaro, the company Hydreco S.c.a.r.l. and its component companies, including Sigesa SpA (which transferred its rights to Acea SpA), to obtain reimbursement of the fees due for administration for the period from 1995-2002, quantified in the amount of € 946,091.63, plus damages, interest and revaluation.

The companies disputed the Municipality's claim and filed a counter-claim for non adjustment of tariffs and loss of earnings due to the early revocation of the service. During the case an expert was called upon, who recognised a balance due to the Municipality of around € 230 thousand. Nonetheless, the Court, with judgement 1555 of 29 October 2015, ordered the companies to jointly pay € 946,091.63, plus interest and revaluation of the payable accrued, rejecting the counter-claims. The losing parties filed separate appeals and, with an ordinance of 27 March 2018, the Catanzaro Court of Appeals suspended execution of the appealed judgement, based on the validity of the arguments made in the appeal document. However, with judgement 677 of 6 June 2020, the appeals were rejected.

Acea filed an appeal with the Court of Cassation. The date for the hearing has not yet been set.

Acea SpA and areti SpA – MP 31 S.r.l. (formerly ARMO-SIA MP S.r.l.)

This is a challenge to the Injunction Order issued by the Court of Rome, docket no. 58515/14, issued against areti for the amount of € 226,621.34, requested by Armosia MP by way of lease payments for the months of April, May and June 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 was initially set for 16 April 2020 and then postponed to 16 June 2022.

Acea SpA and Acea Ato 2 SpA – Co.La.Ri.

With a writ of summons served on 23 June 2017, the Consortium Co.La.Ri. and E. Giovi S.r.l. – respectively the manager of the Malagrotta landfill (prov. Rome) and the executor – summoned Acea and Acea Ato 2 to obtain payment for the portion of the tariff for accessing the landfill, to be allocated to cover the thirty-year costs to manage the same, as established in Italian Legislative Decree 36/2003, alleged to be due for the depositing of waste during the contractual period from 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 2 Authority 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 conclusion, most recently postponed to 22 March 2021.

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. The hearing was held on 15 December 2020 and, after it ended, with judgement 252 of 12 January 2021, the Supreme Court rejected the appeal filed by Acea Ato 2.

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 20 May 2021. A similar appeal was filed by Acea Ato 5 SpA and, in this case as well the hearing was postponed to 20 May 2021 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 S.c.a.r.l.

In June 2019 the company Parco dell’Aniene S.c.a.r.l. 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. After this hearing, the Judge, initially holding that that the objection raised by Acea regarding a lack of jurisdiction is enough to issue a judgement, postponed the hearing for the clarification of conclusions to 30 June 2021 without, at that time, ordering any investigatory activities.

Note that the counterparty simultaneously introduced an appeal regarding jurisdiction with the United Sections of the Supreme Court of Cassation. The date for the relative hearing has not yet been set. Most recently, on 11 February 2021 the counterparty filed an ap-

peal pursuant to article 700 of the Italian Code of Civil Procedure, asking the Judge to avoid aggravating the damages and end the alleged prejudicial conduct.

The appeal filed introduced a precautionary sub-proceedings in the context of the already pending judgement, with the hearing for the appearance of the parties set for 30 March 2021.

Acea Ato 2 SpA – Disputed concession of derivation of drinking water from the Peschiera and Le Capore springs for the water supply of Roma Capitale

Three judgements are currently pending before the Superior Court of Public Waters for the annulment of the Determination of the Lazio Region of 10 June 2019 (DGR no. G.07823) – with which the Concession was issued for the derivation of public water for drinking from the Peschiera springs in the municipalities of Cittaducale and Castel S. Angelo and from the Le Capore springs in the municipalities of Frasso Sabino and Casaprota for the water supply of Roma Capitale – which involve Acea Ato 2 and Roma Capitale as counterparties.

Appeals brought by the Postribù Association and the Municipality of Casaprota

With regard to both appeals – served respectively on 16 and 19 September 2019 – at the hearing on 4 March 2020 the examining magistrate reserved judgement on the preliminary requests made by the applicants and postponed any skeleton pleadings to the hearing of 23 September 2020. At the hearing, after rejecting the investigation requests made by the counterparties, the Judge asked for specification of conclusions at the collegial hearing, held on 20 February 2020. The judgement has not yet been issued.

Appeal filed by the Municipality of Rieti

With regard to this appeal, served on 16 September 2019, at the hearing on 4 March 2020, as per the opposing party's request, a postponement to 23 September 2020 for examination of the opponent's brief and any preliminary statements was ordered. The Judge set the date for the next hearing for the filing of briefs and counterbriefs and any conclusions for 10 February 2021. At the hearing, the case was referred to the Board for the decision, for a collegial hearing on 17 March.

Acea Ato 2 SpA – Enel Green Power Italia S.r.l.

With an appeal of 27 July 2020, Enel Green Power Italia S.r.l. (EGP) summoned Acea Ato 2 to the Regional Public Waters Court, via the Roma Civil Appeals Court, to obtain recognition of its right to receive a greater amount than that already paid by Acea as an indemnity for lower voltage (in terms of that due based on the agreement in effect between the parties as of 1985), for electricity which could not be produced with the Farfo 1° salto, Farfa 2° salto, Nazzano and Castel Giubileo systems, subject to derivation of waters from the Le Capore sources.

More specifically, the appellant states that between 2009 and 2019, Acea, in applying the methods used to calculate the indemnity as indicated in the 1985 agreement, erroneously calculated the amounts due and that, as a consequence of this calculation error, should be required to pay EGP the total amount of € 11,614,564.85, plus additional amounts claimed as due for adjustments after 31 December 2019, as well as interest on arrears. Acea Ato 2 filed its appearance, noting the unfounded nature of the interpretation of the agreement on which the appellant bases its request and indicating a different way of quantifying the indemnity which is more in line with the agreements made between the parties during the course of the contractual relationship.

Based on the application of this calculation method, Acea Ato 2, taking into account the indemnities already paid, formulated a counter-claim for the return of € 3,246,201.46, plus legal inter-

est, in that it was not due from Acea Ato 2.

The first hearing was held on 15 December 2020 and at that time the Investigating Judge postponed the case to 20 April 2021 for continued discussion of the issues, assigning a deadline for notes and reserving for the conclusion all decisions both regarding the inclusion of cross examination of the Area Authority requested by Acea and in relation to the objection of a lack of jurisdiction for the Waters Court also raised by the same.

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 p.l.c.

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 trial is currently pending before Section XVIII of the Court of Rome, with a hearing for skeleton pleadings set for 25 November 2020. In January and February 2021 the final briefs were filed and the decision has not yet been issued.

The injunction issued in favour of GSE SpA

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.

Consequently, the parties have agreed to abandon the judgement and, by decree of 13 May 2020, it has been declared closed.

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.

With decree of 13 June 2019 the Investigating Judge ordered an assessment by a court-appointed expert. The draft of the expert witness was submitted on 17 March 2020, with a deadline for comments on 13 July 2020. In view of the hearing for examination of the technical expert's findings, Gala filed a request for an appeal to the European Union Court of Justice. After this hearing, on 1 October 2020, the Judge granted a deadline for the filing of briefs and requests for clarifications and responses, reserving all other decisions. With an order dated 16 November 2020, the Judge then determined the case should not be sent to the Court of Justice and, deeming the case ripe for a decision, confirmed the already set hearing for conclusions on 12 May 2021.

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 meantime, due to the serious breach of contractual obligations, on 8 October 2018 areti notified MNP of the termination of the transport contract.

In the course of the proceedings, in December 2019, the counterparty amended its claim for damages, quantifying them at over € 34.0 million.

After the hearing on 7 October 2020, the Judge, rejecting the

counterparty's request for a technical expert, set the hearing for conclusions for 3 March 2022.

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 on 4 November 2020. At that time, the Judge set the deadlines for briefs and set the date for the next hearing for 21 April 2021.

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. For the same reasons mentioned above, MNP lodged a challenge to the injunction and the first hearing was first scheduled for 14 May 2020 and then postponed to 3 December 2020. At this hearing, the Judge reserved their decision on the request for granting provisional enforcement of the decree and the judgement is still awaited.

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 due to breach of contract would appear, *prima facie*, unfounded due to the absence of a contract, which is necessary in relations with a public administration like the Consortium. 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 OTA 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. Campania Water Authority) 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 “quantifying 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 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, and then further adjourned to a hearing on 18 February 2021 for clarifications.

Gori SpA Update of the 2016-2019 regulatory framework of the Sarnese-Vesuviano District of the Campania Region

The Municipalities in question challenged the Resolution of the Extraordinary Commissioner of the Sarnese-Vesuviano Area

Authority dated 19/2016 with which the 2016-2019 Regulatory Scheme was prepared and the Resolution of the same Extraordinary Commissioner no. 39/2018 with which the aforementioned Regulatory Scheme was updated. The scheduling of a public hearing to discuss the merits of the case is therefore still pending.

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.

The Group companies concerned lodged a cross appeal, and a hearing has yet to be scheduled.

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 26 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 IAS 39.

€ thousand	FVTPL	FVTOCI	Amortised cost	Balance sheet value	Explanatory notes
Non-current assets	41,881	0	0	41,881	
Other equity investments	3,100	0	0	3,100	21
Financial assets	38,781	0	0	38,781	23
Current assets	0	2,045	1,597,159	1,599,204	
Trade receivables			981,509	981,509	25
Other current assets: fair value evaluation of differential and swap contracts on commodities	0	2,045	0	2,045	25
Current financial assets	0	0	379,859	379,859	25
Other current assets	0	0	235,791	235,791	25
Non-current liabilities	0	181,190	3,909,467	4,090,657	
Bonds	0	181,190	3,072,254	3,253,444	29
Payables to banks	0	0	837,212	837,212	29
Current liabilities	0	8,649	2,381,021	2,389,670	
Short-term bonds	0	0	16,813	16,813	31
Payables to banks	0	8,649	198,588	207,237	
Other financial payables	0	0	195,773	195,773	31
Other current liabilities: fair value measurement of differential and swap contracts on commodities	0	0	0	0	31
Trade payables	0	0	1,627,119	1,627,119	31
Other liabilities	0	0	342,728	342,728	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.

Commodity Risk

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 envisaged in the sales contracts (sale profile) or, in general, the balancing of positions in the portfolios.

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 Area 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 Area 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.

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, 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, or other instruments aimed at hedging commodity price risk. 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 end customers within and outside the Acea Group) and commodities (e.g., Electricity, Gas and EUA);
- daily check on limits applying to the various Commodity Books.

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 2021.

Instrument	Index	Purposes	Purchases/sales	Fair value in € thousand	Portion recognised to Shareholders' equity	Portion recognised in the Income Statement
Swap, CFD	Energy_IT	Hedging Energy Portfolio	Purchase of electricity	(36.5)	(36.5)	0
Swap, CFD	Gas_IT	Hedging Gas Portfolio	Purchase of natural gas	1,975	1,975	0
Swaption	Energy_IT	Hedging Energy Portfolio	Electricity sales	99.5	99.5	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.

With regards to the type of derivatives for commodities for which fair value is determined, note that this is fair value level 1 as they are 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

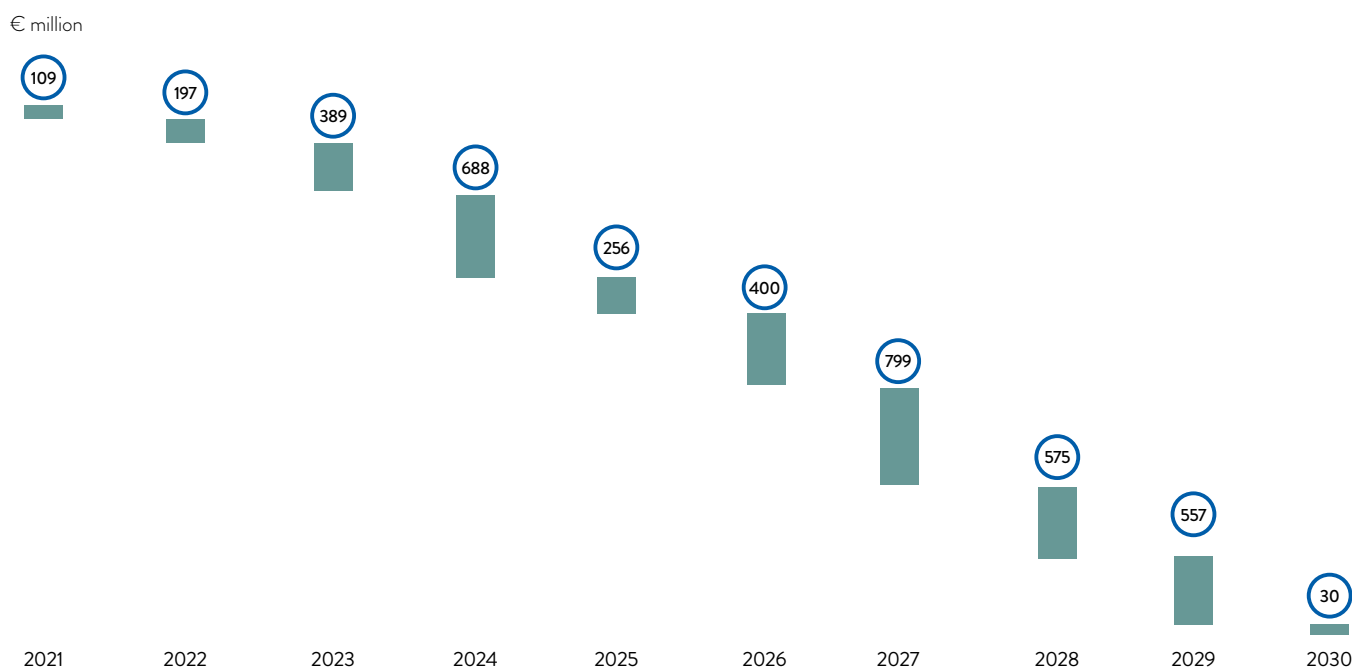
Acea's liquidity risk management policy is based on ensuring the availability of significant bank lines of credit. Such lines exceed the average requirement necessary to fund planned expenditure and enable the Group to minimise the risk of extraordinary outflows. In order to minimise liquidity risk, 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 2020 the Parent Company has uncommitted credit lines of € 558 million, of which € 140 million utilised. 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.

Acea also has committed revolving lines for € 500 million, with an average maturity of around 2.5 years. Additionally, on 30 July 2020 Acea signed a new direct unsecured loan contract with the European Investment Bank for a total not to exceed € 250 million, entirely available as of 31 December 2020, with an availability period through 30 July 2023 and final maturity not to exceed 15 years after disbursement. At the end of the year the Parent Company has commitments in short-term deposit transactions for an amount of € 225 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 January 2020, Acea can place additional bond issues up to the total residual amount of € 0.9 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 (€ 1,535.1 million) it should be noted that the portion which is due to expire in the next twelve months amounted to € 1,354.0 million. The amount already expired of € 181.1 million will be paid by the first quarter of 2021.

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 medium/long-term 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 (81%) as at 31 December 2020, 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 € 0.3 million (negative for € 1.0 million at 31 December 2019);
- negative for € 22 million (negative for € 19.9 million 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.

Financing € thousand	Amortised cost (A)	RISK LESS FV (B)	Delta (A)-(B)	RISK ADJUSTED FV (C)	Delta (A)-(C)
Bonds	3,270,257	3,637,566	(367,309)	3,550,897	(280,640)
fixed rate	315,246	364,763	(49,517)	360,748	(45,502)
floating rate	442,866	454,758	(11,892)	445,733	(2,867)
floating rate cash flow hedge	195,447	225,567	(30,120)	220,174	(24,728)
Total	4,223,815	4,682,653	(458,838)	4,577,552	(353,737)

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)%	(418.7)
(1,0)%	(286.6)
(0,5)%	(159.3)
(0,3)%	(97.4)
n.s.	0.0
0.25%	23.1
0.50%	81.7
1.00%	195.9
1.50%	305.9

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 2019 Acea issued the new guidelines of the credit policy to make it consistent with the ongoing organisational changes and the Credit Risk Profiling project, with which different credit management strategies have been identified. The “Scoring and customer credit limit” procedure for non-regulated markets was also issued.

The Credit Check system, which has been operating in unregulated markets for several years and with which all new mass mar-

ket and small business customers are checked through customised scorecards, was integrated with the CRM in 2018.

Project work on Credit Risk Profiling (three-year period 2019-2021), the operational scope of which was recently redefined and broadened, has been fully launched and has the macro objectives of 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, which was released into production in June 2020.

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 has also been 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. This guides dunning activities both in terms of customer type (public and private) and behaviour of individual customers (score).

The structures of each company responsible for managing credit report functionally to the Acea Corporate Credit Unit that guarantees end-to-end supervision of the entire process.

The mass management of active and inactive receivables of a limited amount was carried out by 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 inactive customers with significant amounts due.

As a result of these interventions, in recent years 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.

Following the global health emergency that arose in March 2020, the provisions dictated by the government and the competent Authorities were applied, both in terms of occupational safety and business management.

This context determined a slight decrease in income in the first part of the year, largely recovered at the end of 2020, also through the option for customers in difficulty to pay in instalments, in order to allow the gradual correction of the relative positions.

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.

Based on the above guidelines, the companies are responsible for the operational management of active and discontinued loans of the entire 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.

The following table shows the credit risk management of the main business areas of the Group by number of customers/turnover.

Relative to the **areti**, the credit component managed by the Company that indicates a possible risk factor is that invoiced to operators for sales activities relative to transportation of energy on the distribution network, for performances carried out for end customers and general system charges (these latter in turn paid to CSEA or the GSE). This risk was mitigated by regulatory changes implemented by ARERA, which introduced mechanisms for recognising amounts not collected

Relative to the **companies in the Commercial and Trading Segment**, for supplies of electricity and gas on the Free Market, preventive credit risk identification is done through a credit scoring system, integrated into the user management system, allowing for real time assessment of the creditworthiness of potential clients when they are acquired:

- 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 sup-

ply 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.

Also note that Acea Energia uses the invoicing system both to manage credit relative to active users on the protected market and to manage credit for customers active on the Free Market, while receivables due from ceased customers are managed with dedicated software.

In the last two years, in-court and out-of-court recovery was strengthened, with specific reference to Legal Dispute activities, for receivables under the threshold for action through legal studies managed by the Acea Corporate Credit Unit, with a return to using 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 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.

With regards to **companies in the Water Segment**, it should be remembered that the Galli Law, which grants a single operator a thirty-year concession for the Integrated Water Service in the Optimal Territorial Area, created a local monopoly in the management of this service.

These features of the water market are reflected when measuring credit risk which mainly applies to certain types of insolvency, in particular:

- receivables subject to tender procedures;
- receivables linked to termination of accounts without the creation of a new contractual relationship;
- receivables linked to special social situation, in which the operator due to reasons of public order and/or regional issues is not able to apply the typical risk protection instruments.

Essentially, users, also in typical cases when liquidity is lacking, tend to comply with their commitments relative to a primary service such as water, meaning the operator has risk of a mainly “financial” nature, that is associated with payment trends that tend to be slower on average with respect to trade receivables.

Legislators have taken action multiple times to adopt measures intended to limit late payments, in particular the recent Resolution ARERA 311/2019/R/idr which published the REMSI provision, which contains the provisions for regulating late payments for the Integrated Water Services (REMSI), as of 1 January 2020. This provision was subsequently amended with the Resolution of 17 December 2019, 547/2019/R/idr, with Resolution 26 May 2020, 186/2020/R/idr and Resolution 16 June 2020, 221/2020/R/idr.

In this context, the Companies, consistent with the guidelines of the Acea Group’s credit policy, have identified different strategies that follow the Customer Care philosophy, based on the fundamental presupposition of a direct relationship with users, as a distinctive element in creating an efficient process to constantly improve the net financial position.

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, these are mainly 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.

Management of credit relative to “private” users involves a series of targeted action which range from amicable payment reminders, specific notices for condominium customers, formal notice of arrears, assignment to specialised or internal collection services via telephone, through to disconnection of defaulting end users, factoring and assignment to legal studies for collection of credit via the courts. These actions are carried out with methods and schedules governed by the REMSI provision.

Note that Ministry of Economy and Finance Decrees authorise

Acea Ato 2, Acea Ato 5 and Gori are authorised to make use of forced collection and hence can directly issue tax injunctions and, in the case of persistent default, can register the receivables with injunctions.

For the above companies, tax injunctions represent the main judicial collection tool relative to ceased receivables.

Relative to **other Group Segments**, (Environment Segment, Engineering and Services Segment, Business Development Strategies, Production and Overseas), credit exposure is generally limited and concentrated with a few debtors, carefully managed by the operating companies with support, if necessary, from the Corporate Credit Unit.

The ageing of the Trade Receivables is as follows, gross of the allowance for doubtful accounts, detailed in note 25:

- total trade receivables, gross of provision for impairment of receivables: € 1,577 million;
- trade receivables due to expire: € 398 million;
- past due trade receivables: € 1,179 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 PUR-
SUANT TO ART. 1, PARAGRAPH 125, LAW 124/2017**

**SEGMENT INFORMATION: STATEMENT OF FINAN-
CIAL 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 S.r.l.	Via G. Bruno, 7 – Terni	2,224,992	100.00%	100.00%	100%
Aquaser S.r.l.	P.le Ostiense, 2 – Roma	3,900,000	97.90%	100.00%	100%
Bioecologia S.r.l.	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 S.r.l.	Via Giotto, 13 – Beinasco (TO)	119,015	90.00%	100.00%	100%
Ferrocarril S.r.l.	Via Vanzetti, 34 – Terni	80,000	60.00%	100.00%	100%
Cavallari S.r.l.	Via dell'Industria, 6 – Ostra (AN)	100,000	60.00%	100.00%	100%
Acque Industriali S.r.l.	Via Bellatalla, 1 – Ospedaletto (Pisa)	100,000	73.05%	100.00%	100%
Commercial and Trading Segment					
Acea Energia SpA	P.le Ostiense, 2 – Roma	10,000,000	100.00%	100.00%	100%
Cesap Vendita Gas S.r.l.	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 S.r.l.	P.le Ostiense, 2 – Roma	50,000	100.00%	100.00%	100%
Electric Drive Italia S.r.l.	Via Mario Bianchini, 51 – 00142 Roma	10,000	100.00%	100.00%	100%
Acea Innovation S.r.l.	P.le Ostiense, 2 – Roma	10,000	100.00%	100.00%	100%
Parco della Mistica S.r.l.	P.le Ostiense, 2 – Roma	10,000	100.00%	100.00%	100%
Overseas Segment					
Acea Dominicana S.A.	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	9,089,661	99.99%	100.00%	100%
Acea Perù S.A.C.	Cal. Amador Merino Reyna , 307 MIRAFLORES – LIMA	177,582	100.00%	100.00%	100%
Consortio Acea – Acea Dominicana	Av. Las Americas – Esq. Mazoneria – Ens. Ozama	67,253	100.00%	100.00%	100%
Consortio Servicios Sur	Calle Amador Merino Reyna, 307 – San Isidro	233,566	51.00%	100.00%	100%
Consortio Agua Azul S.A.	Calle Amador Merino Reina, 307 – Lima – Perù	16,000,912	44.00%	100.00%	100%
Consortio Acea	Calle Amador Merino Reina, 307 – Lima – Perù	225,093	100.00%	100.00%	100%
Water Segment					
Acea Ato 2 SpA	P.le Ostiense, 2 – Roma	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	P.le Ostiense, 2 – Roma	8,000,000	76.67%	100.00%	100%
Acque Blu Fiorentine SpA	P.le Ostiense, 2 – Roma	15,153,400	75.01%	100.00%	100%
Acea Molise S.r.l.	P.le Ostiense, 2 – Roma	100,000	100.00%	100.00%	100%
Crea SpA (in liquidation)	P.le Ostiense, 2 – Roma	2,678,958	100.00%	100.00%	100%
Acquedotto del Fiora SpA	Via Mameli, 10 – Grosseto	1,730,520	40.00%	100.00%	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%
Ombrone SpA	P.le Ostiense, 2 – Roma	6,500,000	99.51%	100.00%	100%
Pescara Distribuzione Gas S.r.l.	Via G. Carducci, 83 – Pescara	120,000	51.00%	100.00%	100%
Sarnese-Vesuvianoo S.r.l.	P.le Ostiense, 2 – Roma	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%

(follows)

Company name	Location	Share capital (in €)	Shareholding	Group consolidation quota	Method of consolidation
Alto Sangro Distribuzione Gas S.r.l.	Via L. Galvani, 17/A – 47122 Forlì	463,644	51.00%	100.00%	100%
Servizi Idrici Integrati ScPA	Via I maggio, 65 – Terni	19,536,000	40.00%	100.00%	100%
Notaresco Gas S.r.l.	Via Padre Frasca, s.n., frazione Chieti Scalo Centro Dama	100,000	28.05%	100.00%	100%
Energy Infrastructure Segment					
Areti SpA	P.le Ostiense, 2 – Roma	345,000,000	100.00%	100.00%	100%
Acea Produzione SpA	P.le Ostiense, 2 – Roma	5,000,000	100.00%	100.00%	100%
Acea Liquidation and Litigation S.r.l.	P.le Ostiense, 2 – Roma	10,000	100.00%	100.00%	100%
Ecogena S.r.l.	P.le Ostiense, 2 – Roma	1,669,457	100.00%	100.00%	100%
KT 4 S.r.l.	Viale SS Pietro e Paolo, 50 – Roma	110,000	100.00%	100.00%	100%
Solaria Real Estate S.r.l.	Via Paolo da Cannobio, 33 – Milano	176,085	65.00%	100.00%	100%
Acea Solar S.r.l.	P.le Ostiense, 2 – Roma	10,000	100.00%	100.00%	100%
Acea Sun Capital S.r.l.	P.le Ostiense, 2 – Roma	10,000	100.00%	100.00%	100%
Trinovolt S.r.l.	Viale Tommaso Columbo, 31/D – Bari (BA)	10,000	100.00%	100.00%	100%
Marche Solar S.r.l.	Via Achille Grandi 39 – Concordia sulla Secchia (MO)	10,000	100.00%	100.00%	100%
Fergas Solar S.r.l.	Via Pietro Piffetti, 19 – 10143 Torino	10,000	100.00%	100.00%	100%
Euroline 3 S.r.l.	Piazzale Ostiense, 2 – 00154 Roma	10,000	100.00%	100.00%	100%
IFV Energy S.r.l.	Piazzale Ostiense, 2 – 00154 Roma	10,000	100.00%	100.00%	100%
PF Power of Future S.r.l.	Piazzale Ostiense, 2 – 00154 Roma	10,000	100.00%	100.00%	100%
Engineering and Services Segment					
Acea Elabori SpA	Via Vitorchiano – Roma	2,444,000	100.00%	100.00%	100%
SIMAM SpA	Via Cimabue, 11/2 – 60019 Senigallia (AN)	600,000	70.00%	100.00%	100%
Technologies For Water Services SpA	Via Ticino, 9 – 25015 Desenzano Del Garda (BS)	11,164,000	100.00%	100.00%	100%

**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	Values at 31/12/2020
Environment Segment						
Ecomed S.r.l.	P.le Ostiense, 2 – Roma	10.000	50,00%	50,00%	Shareholders' equity	0
Water Segment						
Acque SpA	Via Garigliano, 1 – Empoli	9.953.116	45,00%	45,00%	Shareholders' equity	90,544,726
Acque Servizi S.r.l.	Via Bellatalla, 1 – Ospedaletto (Pisa)	400.000	100,00%	45,00%	Shareholders' equity	5,109,903
Geal SpA	Viale Luporini, 1348 – Lucca	1.450.000	48,00%	48,00%	Shareholders' equity	7,811,646
Intesa Aretina S.c.a.r.l.	Via B. Crespi, 57 – Milano	18.112.000	35,00%	35,00%	Shareholders' equity	0
Nuove Acque SpA	Patrignone Loc. Cuculo – Arezzo	34.450.389	46,16%	16,16%	Shareholders' equity	12,858,325
Publiacqua SpA	Via Villamagna – Firenze	150.280.057	40,00%	40,00%	Shareholders' equity	11,370,848
Umbra Acque SpA	Via G. Benucci, 162 – Ponte San Giovanni (PG)	15.549.889	40,00%	40,00%	Shareholders' equity	19,334,338
Engineering and Services Segment						
Ingegnerie Toscane S.r.l.	Via Francesco de Sanctis, 49 – Firenze	100.000	98,90%	44,10%	Shareholders' equity	13,356,833
Visano S.c.a.r.l.	Via Lamarmora, 230 – 25124 Brescia	25.000	40,00%	40,00%	Shareholders' equity	10,329
Energy Infrastructure Segment						
Belaria S.r.l.	Via Luciano Manara, 15 – Milano	10.000	49,00%	49,00%	Shareholders' equity	0
Mithra 1 S.r.l.	Via Pontaccio, 10 – Milano	60.000	100,00%	49,00%	Shareholders' equity	0
Energia S.p.A.	Via Barberini, 28 – 00187 Roma	239.520	49,90%	49,90%	Shareholders' equity	13,045,964

The following companies are also consolidated using the equity method:

Company name	Location	Share capital (in €)	Shareholding	Group consolidation quota	Method of consolidation	Values at 31/12/2020
Environment Segment						
Amea SpA	Via San Francesco d'Assisi, 15C – Paliano (FR)	1,689,000	33.00%	33.00%	Shareholders' equity	0
Coema	P.le Ostiense, 2 – Roma	10,000	67.00%	33.50%	Shareholders' equity	0
Overseas Segment						
Agua Azul Bogotà S.A.	Calle 82 n. 19 – 34 – Bogotà – Colombia	951,851	51.00%	50.99%	Shareholders' equity	1,514,263
Water Segment						
Le Soluzioni S.c.a.r.l.	Via Garigliano, 1 – Empoli	250,678	80.84%	51.63%	Shareholders' equity	502,365
Sogea SpA	Via Mercatanti, 8 – Rieti	260,000	49.00%	49.00%	Shareholders' equity	587,836
Umbria Distribuzione Gas SpA	Via Bruno Capponi, 100 – Terni	2,120,000	15.00%	15.00%	Shareholders' equity	511,367
Energy Infrastructure Segment						
Citelum Napoli Pubblica Illuminazione S.c.a.r.l.	Via Monteverdi Claudio, 11 – Milano	90,000	32.18%	32.18%	Shareholders' equity	0
Sienergia SpA (in liquidation)	Via Fratelli Cairoli, 24 – Perugia	132,000	42.08%	42.08%	Shareholders' equity	0
Other						
Marco Polo S.r.l. (in liquidation)	Via delle Cave Ardeatine, 40 – Roma	10,000	33.00%	33.00%	Shareholders' equity	0

B. RECONCILIATION OF SHAREHOLDERS' EQUITY AND STATUTORY PROFIT – CONSOLIDATED

€ thousand	Profit for the year		Shareholders' equity	
	2020	2019	31/12/2020	31/12/2019
Balances in statutory Financial Statements (Acea)	174,832	208,488	1,640,678	1,628,812
Surplus of Shareholders' equity in Financial Statements, including the related results compared to carrying values in consolidated companies	107,639	57,460	(97,969)	(98,846)
Consolidation goodwill	(12,187)	(4,726)	308,250	203,348
Accounted for using the equity method	24,550	36,227	147,817	145,519
Other changes	(9,886)	(13,764)	(33,947)	(24,061)
Balances in consolidated Financial Statements	284,948	283,686	1,964,829	1,854,772

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 until 29/05/2020	96	76	996	300	1,468
Board of Directors meeting of 30/05/2020	137	27	539	730	1,433
Board of Statutory Auditors	370	0	0	0	370

Key Managers

Fees due to executives with strategic responsibilities for 2020 amounted to:

- salaries and bonuses € 3,017 thousand;
- non-monetary benefits € 217 thousand.

Remuneration paid to key managers is established by the Remuner-

ation 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 2020 are provided in the table below.

€ thousand	Audit Related Service	Audit Services	Non Audit Services	Total
Acea SpA	185	251	131	567
Acea Group	152	1,000	0	1,152
Total Acea SpA e Gruppo	337	1,251	131	1,719

The services other than auditing provided to the Parent Company or its subsidiaries during 2020 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 2020 no contributions have been received that fall within the legislation of reference.

In particular, it is specified that the 2020 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 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 2020 is equal to € 3,409 thousand (€ 5,101 thousand at 31 December 2019) while the non-subsidised bank loan at 31 December 2020 is equal to € 758 thousand (€ 940 thousand also at 31 December 2019).

It should be noted that Electric Drive Italia has two subsidised loans at zero interest rates. The first is still in place with Invitalia – Smart & Start Italy programme of 2015 – currently disbursed for € 179 thousand with maturity on 31 May 2027, while the second for € 50 thousand was disbursed by Artigiancassa SpA under the Revolving Fund for Small Credit and will mature on 15 April 2025.

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 Acea Liquidation e Litigation, areti, Acea Sun Capital, Acea Solar and the new photovoltaic companies;
- analysis and research services refer to the Engineering and Services Segment, which, from an organisational standpoint, is responsible for Acea Elabori, TWS and SIMAM;
- 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 and the gas distribution companies operating in Abruzzo;
- 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, Berg, Ferrocarr, Cavallari and Multigreen.

BALANCE SHEET ASSETS 2019

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Distribution
Capex	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	0	0	0	0	0	0
Financial assets	0	0	0	0	0	0
Other non-current trade assets	0	0	0	0	0	0
Other non-current financial assets	0	0	0	0	0	0
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	0	76,339	3,045	4,285
Receivables from subsidiaries and associates	4	1,371	27	7,199	4	0
Other current trade assets	0	0	0	0	0	0
Other current financial assets	0	0	0	0	0	0
Cash and cash equivalents	0	0	0	0	0	0
Non-current assets held for sale	0	0	0	0	0	0

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	0	0
Other current trade liabilities	0	0	0	0	0	0
Other current financial liabilities	0	0	0	0	0	0
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	0	0	0	0	0	0
Other non-current trade liabilities	0	0	0	0	0	0
Other non-current financial liabilities	0	0	0	0	0	0
Liabilities directly associated with assets held for sale	0	0	0	0	0	0
Shareholders' equity						
Total liabilities and Shareholders' equity						

€ thousand	Public Lighting	Engineering and Services	Corporate	Group total	Total consolidation adjustments	Consolidated total
Capex	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	0	0	0	0		268,039
Financial assets	0	0	0	0		2,772
Other non-current trade assets	0	0	0	0		618,359
Other non-current financial assets	0	0	0	0		47,202
Inventories	0	3,454	(0)	57,335	0	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	0	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	0	0	0	0		225,285
Other current financial assets	0	0	0	0		299,212
Cash and cash equivalents	0	0	0	0		835,693
Non-current assets held for sale	0	0	0	0	0	0
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	0	0	0	0		374,058
Other current financial liabilities	0	0	0	0		674,364
Employee severance indemnity and other defined benefit plans	0	2,824	23,323	104,613	0	104,613
Other provisions	0	2,506	(6,094)	127,662	23,757	151,418
Provision for deferred taxes	0	0	0	0	0	0
Other non-current trade liabilities	0	0	0	0	0	391,100
Other non-current financial liabilities	0	0	0	0	0	3,551,889
Liabilities directly associated with assets held for sale	0	0	0	0	0	0
Shareholders' equity						2,106,710
Total liabilities and Shareholders' equity						8,954,416

INCOME STATEMENT 2019

€ thousand	Environment Business	Energy Business	Overseas Business	Water Business	Generation	Distribution
Revenues	182,875	1,616,530	47,328	1,012,013	79,634	559,132
Personnel costs	21,810	25,178	9,796	98,489	4,683	25,703
Purchase of electricity	5,146	1,426,543	-	53,748	10,702	115,256
Sundry costs of materials and overheads	103,965	95,779	21,737	392,023	19,682	72,731
Costs	130,922	1,547,501	31,533	544,260	35,068	213,690
Net income/(costs) from commodity risk management	-	(99)	-	-	-	-
Valuation of companies using the equity method	(2)	-	1,130	37,206	-	-
EBITDA	51,951	69,128	16,924	504,959	44,566	345,442
Depreciation/amortisation	30,878	50,812	9,219	254,974	21,686	130,303
Operating profit/loss	21,072	18,316	7,705	249,985	22,880	215,138
Financial (costs)/income						
(Costs)/income from equity investments	-	-	-	(0)	-	-
Profit/(loss) before tax						
Taxes						
Net profit/(loss)						

€ thousand	Public Lighting	Adjustments	Total Energy Infrastructure	Engineering Business	Corporate Business	Consolidation adjustments	Consolidated total
Revenues	44,559	(821)	682,504	75,918	142,555	(573,587)	3,186,136
Personnel costs	2,320	(21)	32,686	17,720	60,296	(16,700)	249,275
Purchase of electricity	4,262	-	130,220	89	1,005	(246,654)	1,370,098
Sundry costs of materials and overheads	36,034	(800)	127,647	26,979	86,822	(289,044)	565,932
Costs	42,616	(821)	290,553	44,787	148,123	(552,374)	2,185,306
Net income/(costs) from commodity risk management	-	-	-	-	-	-	(99)
Valuation of companies using the equity method	-	-	-	3,033	-	-	41,367
EBITDA	1,943	-	391,951	34,164	(5,568)	(21,212)	1,042,297
Depreciation/amortisation	2,241	-	154,231	2,443	18,725	(2,209)	519,073
Operating profit/loss	(298)	-	237,720	31,721	(29,410)	(19,003)	523,224
Financial (costs)/income							(95,419)
(Costs)/income from equity investments	-	-	-	-	1,104	1,481	2,585
Profit/(loss) before tax							430,390
Taxes							123,213
Net profit/(loss)							307,177

BALANCE SHEET ASSETS 2020

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Areti
Capex	23,566	44,111	3,097	475,951	38,978	282,560
Sector assets						
Total tangible fixed assets	257,074	(2,965)	31,820	110,728	274,006	1,997,325
Total intangible fixed assets	36,064	189,916	37,521	3,330,393	56,341	103,491
Subsidiaries						
Financial assets in shares						
Total non-financial assets						
Total financial assets						
Inventories	6,851	402	1,524	19,642	385	54,401
Receivables from customers	87,500	221,456	7,818	525,745	32,264	162,732
Receivables from Parent Company	361	16,323	-	28,100	5,191	4,843
Receivables from associates	25	1,385	3	31	-	-
Other receivables and current assets						
Total financial assets						
Total cash and cash equivalents						
Non-current assets held for sale						
Total assets						

BALANCE SHEET LIABILITIES 2020

€ thousand	Environment	Commercial and Trading	Overseas	Water	Electricity generation	Areti
Segment liabilities						
Trade payables to third parties	64,623	432,792	3,087	708,365	30,464	322,098
Trade payables to Parent Company	4,050	24,987	67	146,035	2,769	38,597
Trade payables to subsidiaries and associates	17	3,546	148	6,251	-	-
Other current trade liabilities						
Other current financial liabilities						
Employee severance indemnity and other defined benefit plans	10,700	4,920	319	36,211	2,538	40,663
Other provisions	22,267	16,257	263	52,792	22,274	23,884
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	Corporate	Consolidation adjustments	Consolidated total
Capex	3,603	6,629	28,474		906,970
Sector assets					
Total tangible fixed assets	8,731	14,356	98,870	(461)	2,789,018
Total intangible fixed assets	-	20,885	57,986	(386,227)	3,446,371
Subsidiaries					276,362
Financial assets in shares					3,100
Total non-financial assets					757,372
Total financial assets					38,781
Inventories	-	8,768	-	-	91,973
Receivables from customers	8,784	52,254	797	(164,729)	934,174
Receivables from Parent Company	57	109	(35)	(16,231)	38,718
Receivables from associates	111	6,449	135,657	(135,044)	8,617
Other receivables and current assets					267,061
Total financial assets					379,859
Total cash and cash equivalents					642,209
Non-current assets held for sale					-
Total assets					9,673,613,917

€ thousand	Public Lighting	Engineering	Corporate	Consolidation adjustments	Consolidated total
Segment liabilities					
Trade payables to third parties	5,793	16,895	118,327	(166,929)	1,535,067
Trade payables to Parent Company	30	2,148	182	(131,232)	87,634
Trade payables to subsidiaries and associates	9,257	33	3,134	(17,969)	4,417
Other current trade liabilities					464,367
Other current financial liabilities					419,822
Employee severance indemnity and other defined benefit plans	-	5,196	21,500	-	122,047
Other provisions	-	2,246	(5,944)	22,914	156,951
Provision for deferred taxes					-
Other non-current trade liabilities					405,799
Other non-current financial liabilities					4,154,251
Liabilities directly associated with assets held for sale					-
Shareholders' equity					2,323,258
Total liabilities and Shareholders' equity					9,673,614

INCOME STATEMENT 2020

€ thousand	Environment Business	Energy Business	Overseas Business	Water Business	Generation	Areti
Revenues	200,016	1,593,512	62,351	1,181,279	78,749	577,304
Personnel costs	27,307	23,849	12,688	106,585	4,622	26,128
Purchase of electricity	4,872	1,400,338	-	62,829	8,708	111,327
Sundry costs of materials and overheads	117,495	96,302	24,384	425,091	20,339	70,236
Costs	149,674	1,520,489	37,073	594,504	33,668	207,692
Net income/(costs) from commodity risk management	-	(330)	-	-	-	-
Valuation of companies using the equity method	(7)	-	-	29,529	308	-
EBITDA	50,335	73,352	25,278	616,304	45,389	369,612
Depreciation/amortisation	30,929	60,609	13,168	304,482	27,251	156,492
Operating profit/loss	19,406	12,743	12,110	311,822	18,137	213,120
Financial (costs)/income	(10,179)	1,852				
(Costs)/income from equity investments	-	-	-	10,786	3,227	-
Profit/(loss) before tax						
Taxes						
Net profit/(loss)						

€ thousand	Public Lighting	Adjustments	Total Energy Infrastructure	Engineering Business	Corporate Business	Consolidation adjustments	Consolidated total
Revenues	41,386	(1,040)	696,398	86,455	131,128	(571,748)	3,379,392
Personnel costs	5,887	(28)	36,609	37,078	61,557	(38,022)	267,651
Purchase of electricity	4,460	(230)	124,265	78	884	(242,631)	1,350,634
Sundry costs of materials and overheads	33,099	(781)	122,892	37,042	103,243	(290,181)	636,292
Costs	43,446	(1,040)	283,766	74,197	165,684	(570,810)	2,254,577
Net income/(costs) from commodity risk management	-	-	-	-	-	-	(330)
Valuation of companies using the equity method	-	-	308	2,438	-	(1,948)	30,319
EBITDA	(2,060)	-	412,940	14,696	(34,556)	(2,886)	1,155,463
Depreciation/amortisation	1,971	-	185,715	4,440	21,141	-	620,483
Operating profit/loss	(4,032)	-	227,225	10,256	(55,697)	(2,886)	534,980
Financial (costs)/income							(88,018)
(costs)/income from equity investments	-	-	3,227	1,878	253	(1,901)	14,243
Profit/(loss) before tax							461,205
Taxes							134,648
Net profit/(loss)							326,558



Independent auditor's report

*In accordance with article 14 of Legislative Decree No. 39 of 27 January 2011
and article 10 of Regulation (EU) No. 537/2014*

Acea SpA

***Consolidated Financial Statements
as of 31 December 2020***



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 2020, 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 2020, 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

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Emphasis of matter

We draw your attention to paragraph “Trend of operating segments – Water Operating Segments” of the report on operations and to paragraph “Service Concession Arrangements” of the notes which describe:

- the uncertainties regarding the subsidiary Acea Ato5 SpA linked to (i) the financial imbalance which arose following the Area Authority’s approval of the 2020-2023 tariff structure by resolution no. 1/2021 which casts significant doubt on the company’s ability to continue as a going-concern, (ii) the ongoing tax litigation and (iii) 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 2016-2020 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.

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
<p>Determination of revenue from sales and services and receivables for invoices to be issued</p> <p><i>Note 1 “Revenue from sales and services” and note 25.b “Trade receivables” to the consolidated financial statements</i></p> <p>The Group recognised in the consolidated financial statements as of 31 December 2020 receivables from users for invoices to be issued for an amount equal to Euro 412 million compared to revenue from sales and services amounting to Euro 3,205 million.</p> <p>The Group recognises revenue from sales and</p>	<p>The audit procedures we performed consisted in understanding, assessing and validating the operation of relevant controls implemented by management as part of the revenue cycle, with particular, but not exclusive, reference to the update of the customer database, the recognition of meter readings, consumption estimates, the</p>

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 (“AREERA”). 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 AREERA 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 tariff plan prepared in accordance with the Water Pricing Method applied for the calculation of the 2020-2023 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 exceptional events (i.e. water and environmental emergencies), if the preliminary investigation for their recognition has given positive results.

calculation of tariffs and the valuation of invoices and receipts, as well as the related disclosure provided by the directors.

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 AREERA;
 - We verified the consistency of the methods followed to determine the accruals for the “regulatory lag”.

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 fixed assets” and note 19 “Right of use” to the consolidated financial statements

The Group recognised in the consolidated financial statements as of 31 December 2020 non-current assets equal to Euro 6,234 million, of which Euro 2,787 million related to tangible assets, Euro 3,149 million related to intangible assets, Euro 224 million related to goodwill and Euro 74 million of right of use.

The Group investments in the period totalled Euro 959 million, of which Euro 335 million related to tangible assets and Euro 624 million related to intangible assets (including concessions and goodwill).

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 capital and therefore by the changes in non-

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 these segments, 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.

With reference to the impairment test, we addressed our audit procedures in order to:



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 of the other non-current assets. In particular, goodwill is tested for impairment at least annually and with the same frequency, in compliance with a specific internal policy, the impairment test is carried out on the equity investments in associates and the other non-current assets, also without any impairment indicators. With reference to FY2020 the Company's management availed itself of an external expert for the performance of the impairment test.

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.

- 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 2020-2024 approved by the Board of Directors on 27 October 2020, partially updated to take account of the events occurred between the date of approval of the Plan and the date of approval of the financial statements;
- iv) verify the reasonableness of the main assumptions used by management to perform the impairment test and related sensitivity analyses, with particular reference to the subsidiary Acea Ato5 in light of the Area Authority's approval of the 2020-2023 tariff structure; and
- v) evaluate the independence, technical capabilities and related objectivity of the external expert engaged by the management for the performance of the impairment test, as well as the methods used by him.

As part of our auditing we were supported, where necessary, by our PwC network experts in valuations.

Finally, we examined the disclosures provided by the directors in the notes to the consolidated financial statements in relation to the above-described matters.

Determination of the provision for doubtful accounts – trade receivables

Note 25.b to the consolidated financial statements "Trade receivables"

We addressed our audit procedures in order to verify the correctness of the reports generated by the information systems and



The Group recognised in the consolidated financial statements as of 31 December 2020 a provision for doubtful trade accounts for an amount equal to Euro 640 million.

At each reporting date the Group estimates the irrecoverable amount of trade receivables based on complex calculation models which rely upon the requirements in the 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.

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.

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, as well as the related disclosure provided by the directors.

Business combinations

“Business combinations” section of the consolidated financial statements

During 2020, 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 deemed necessary, by external experts.

Due to the number of acquisitions and the

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 independence, technical capabilities and the objectivity of the external experts involved, as well as the methods used by them.



complex issues underlying the related measurement and recognition process, we paid particular attention to such financial statement matter.

As part of our audit activities, we availed ourselves, where necessary, of the support of the PwC network experts in valuations.

Finally, we verified the disclosures provided by the directors with reference to the business combinations performed and the related financial statement items.

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 2020, 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 2020 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 2020 and are prepared in compliance with the law.

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



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

The directors of 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, 31 March 2021

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, Giuseppe Gola, as Chief Executive Officer, and Fabio Paris, 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 2020.

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, 31 March 2021

signed by: Giuseppe Gola, The CEO

signed by: Fabio Paris, The Executive Responsible for Financial Reporting

This report has been translated into the English language solely for the convenience of international readers





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

Corporate Governance Code: the Corporate Governance Code approved by the Corporate Governance Committee, made up of leaders of listed companies and asset management companies, as well as representatives from trade associations (ABI, ANIA, Assogestioni, Assonime, Borsa Italiana e Confindustria), published on 31 January 2020, available for consultation at <http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>

Civil Code: the Italian Civil Code

Board: the Issuer's Board of Directors

ER/Executive Responsible: Financial Reporting Officer

Issuer/Company/Acea: the issuer of securities to which the Report refers

Financial year: the financial year to which the Report refers

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 adequately consider, in the exercise of governance, all 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 CEO; 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, pursuant to Italian Legislative Decree 231/01, is appointed by the Board of Directors.

The information contained herein refers to financial year 2020 and, in relation to specific subjects, it is updated as at 10/03/2021, 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 pursuant to art. 2357-ter of the 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 10/03/2021 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 (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) Restrictions on voting rights (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 (pursuant to art. 123-bis of the TUF, para. 1, lett. h) and Articles of Association provisions on takeovers (pursuant to arts. 104, para. 1-ter and 104-bis, para. 1)

Acea has signed a number of significant agreements which become

effective or are annulled in the case of a change of control for 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 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);
- long term loan totalling € 250 million from the European Investment Bank in favour of Acea SpA (Water Segment III);
- long term loan totalling € 250 million from the European Investment Bank in favour of Acea SpA (Water Segment III), not yet disbursed as at 31 December 2020;
- revolving Credit Facility for a total of € 350 million in favour of Acea SpA, not disbursed as at 31 December 2020.

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 2020 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.

Additionally, as stated, the Company presently holds 416,993 treasury shares for which voting rights are suspended, pursuant to art. 2357-ter of the Civil Code, 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.

j) Management and coordination (pursuant to art. 2497 and subsequent, Civil Code)

Art. 2497 and subsequent of the Civil Code do not apply, 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 dismissal

without just cause or if their professional relationship ceases subsequent to a takeover") is contained in the Report on remuneration policy and compensation paid published pursuant to art. 123-ter of the TUF;

- the information required by art. 123-bis, para. 1, lett. l) ("*regu-*

lations applicable to the appointment and replacement of Directors ... as well as to amendments to the Articles of Association, if different from the legal and regulatory rules applicable") are illustrated in the section of the Report on the Board of Directors (paragraph 4).

3. COMPLIANCE (pursuant to art. 123-bis, para. 2, lett. a), TUF)

Acea 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.

Acea has adhered to the Corporate Governance Code since the version issued in 2001.

The complete text of the Corporate Governance Code is available to the public on the Borsa Italiana website <https://www.borsaitalia-na.it/comitato-corporate-governance/codice/2018clean.pdf>.

The Company provides information annually on its governance system and on its adhesion to the Code by means of a Report, drawn up also pursuant to art. 123-bis of the TUF, which shows the degree of adhesion 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 16 December 2020, the Acea Board of Directors expressed a favourable opinion with regards to the adoption of the New Code, asking that the necessary research be done, identifying actions deemed necessary to appropriately implement the principles and recommendations it contained for anything not yet done by the Company.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT (art. 123-bis, para. 1, lett. I, 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:

- gender balance must be ensured in the composition of the Board of Directors, as governed 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 mini-

imum 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. In fact, art. 15 of the Articles of Association establishes that the Board of Directors must contain a minimum number of Directors holding the independence requirements established under the law, applicable regulations and the Self Governance Code for Listed Companies, equal to that set under current regulations.

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-*quater* of the Regulations for Issuers by Executive Determination no. 44 of 29 January 2021 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-optation, pursuant to 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.

¹ Recall that Law 160 of 27 December 2019 (“2020 Budget Law”) amended the provisions pursuant to art. 147-ter and 148 of Italian Legislative Decree 58/98 regarding gender balance in the bodies of listed companies, establishing a quota for the less-represented gender of at least two fifths (40%) and establishing that this criteria applies for six consecutive terms.

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' 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, pursuant to art. 12 of the Articles of Association, will adopt the necessary resolutions with the majorities required by law.

Succession plans

In consideration of the methods for appointing Executive Directors, the expression of the evaluations made by the majority Shareholder, the Board of Directors has deemed it unnecessary to create a succession plan for the stated Directors.

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. To that end, it should be noted that in the context of analysis functional to full implementation of the new Corporate Governance Code, the was informed of the expediency of beginning, during the course of the present Board's term, activities functional to the adoption of a succession plan for the CEO, which defines the procedures to be followed in the case of an early termination of the office, periodic updating of the same and the methods for implementation.

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 on 29 May 2020 and will remain in office until the approval of the Financial Statements for the 2022 financial year.

The following Directors were taken from the majority list, presented by the Shareholder Roma Capitale: Michaela Castelli, Giuseppe Gola, Giacomo Larocca, Gabriella Chiellino and Liliana Godino.

Alessandro Caltagirone and Massimiliano Capece Minutolo del Sasso were elected from the minority list presented by Fincal SpA, while Giovanni Giani and Diane Galbe were elected from the minority list presented by Suez Italia SpA.

Therefore, as of the date of this report, the Board of Directors is composed as follows: Michaela Castelli, Giuseppe Gola, Gabriella Chiellino, Liliana Godino, Giacomo Larocca, Alessandro Caltagirone, Massimiliano Capece Minutolo del Sasso, Giovanni Giani and Diane Galbe. Of the above Directors in office, one is an Executive Director – Giuseppe Gola – 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 ex-

perience 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 significant experience as a member of the Boards of Directors of significant listed and unlisted companies; additionally, she is the member of Boards of Statutory Auditors, internal Board committees and supervisory bodies, as well as serving as the Chairperson of Utilitalia.

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 (including: no. 1 Michaela Castelli, no. 2 Giacomo Larocca; no. 3 Giuseppe Gola, no. 4 Gabriella Chiellino, no. 5 Liliana Godino, no. 6 Stefano Pareglio, no. 7 Maria Verbena Sterpetti); the relative proposal obtained a favourable vote from 69.9949% of voters.

Giuseppe Gola

Chief Executive Officer – Executive

Giuseppe Gola was born in L'Aquila in 1964.

From September 2017 to May 2020 he was the CFO of the Acea Group.

Since May 2002 he has worked for Wind Telecomunicazioni, where, from October 2007 to December 2016, he served as CFO. Previously he was Management Control Director. From January 2017 to August 2017 he worked as a senior advisor, collaboration with ZTE and Cellnex.

From 1998 to 2002 he worked for various telecommunications operators, including IPSE 2000, as the Management Control Director, Albacom, as the Strategic Planning Director and Wind Telecomunicazioni, where he was the Business Plan Director.

He began his career with the Enel Group, from May 1991 to June 1996, where in the IT Department he was the Investment Planning Director. In 1997 he became the Business Plan Director for Enel mobile services, with the objective developing a joint venture to enter the telecommunications market as a competitor to Telecom Italia.

Giuseppe Gola obtained a degree in Electronic Engineering in 1990 and a Master in Business Administration from the LUISS Guido Carli School of Management.

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 has been the Chief Procurement Officer at Ignazio Messina & C. SpA, with registered offices in Genoa, since July 2020. From April 2015 to September 2017 she was the General Affairs and Organisation Director at Baglietto S.r.l., which produces certified steel for shipyards across the globe. 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. 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.

Giacomo Larocca

Director – non-Executive – independent

Giacomo Larocca was born in Rome on 13 May 1978, he graduated in Statistical and Actuarial Science at La Sapienza University in Rome.

He currently works as the Programming and Management Control Director at SACE BT, a company he has worked for since 2009.

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. Currently a member of the Board at various companies, including: Il Messaggero SpA, Caltagirone SpA, Caltagirone Editore SpA, and is also the Deputy Chairperson 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 which, as of the date of the Shareholders' Meeting of appointment, held 2.676% of the share capital (including: 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), which obtained a favourable vote from 19.1328% of the voters.

Massimiliano Capece Minutolo del Sasso

Director – non-Executive – independent

Massimiliano Capece Minutolo del Sasso was born on 07 April 1968; he is 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.

Diane Galbe

Director – non-Executive

Diane Galbe was born in Paris on 14 January 1981 and was 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 CEO 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.

Appointed on the basis of list no. 3, presented by Suez SA, which as of the date of the Shareholders' Meeting held 10.85% of share capital (including: no. 1 Diane Galbe, no. 2 Giovanni Giani, no. 3 Aurelia Carrera Binnet, no. 4 Angel Simon Grimaldos), which obtained a favourable vote from 10.6568 % of voters.

Giovanni Giani

Director – non-Executive

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 industrial, engineering and public services sectors. Expert in international relations.

Awarded the “Officier de l'Ordre du Mérite de la République Française”. Since 2018, he has served as the Chairperson and CEO for Italy for the Suez Group, as well as holding various offices within group companies internationally.

He currently serves as a Senior Advisory to the Suez Group.

He also offers strategic consulting in the industrial sector.

Appointed on the basis of list no. 3 presented by the aforementioned Suez SA.

Diversity criteria and policy

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, in view of the Shareholders' Meeting called for the appointment of the 2020 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 needed to take into account diversity, in terms of both gender and seniority, in line 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.

Additionally, recall that on 1 January 2020 the provisions of the 2020 Budget Law took effect, amending articles 147-ter, para. 1-ter and 148, par. 1-bis of the TUF, introduced by Law 120 of 12 July 2011, with regards to gender balance on the bodies of listed companies. This Budget Law established a different quota for the less-represented gender equal to “at least two fifths” of the members of the Board of Directors.

Note that the composition of the current Board of Statutory Auditors complies with the gender balance called for under applicable regulations. 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).

Additionally, in November 2019 Acea signed the Utilitalia Pact – “Diversity makes the difference”, to support gender, age, culture and ability diversity. The document is focussed on inclusive policies at all organisational levels, work/life balance, transparent merit-based management and internal and external policies to increase awareness. During 2020, the relevant structures worked with signatory companies to offer practical guidelines for each of the Pact Commitments, to allow companies to begin a concrete and effective process of supporting diversity.

Maximum number of offices simultaneously held in other companies

At its meeting on 16 December 2020, after the investigation carried out in 2020 by the previous Appointment and Remuneration Committee, as well as that currently in office, the Board of Directors resolved to update the guidelines already expressed on 23 March 2011 with regards to the maximum number of offices held. To that end, it defined “other significant companies”, for the purposes of calculating the total in addition to other listed companies, to financial, banking or insurance companies, or those with Shareholders’ equity exceeding € 1 billion.

It also resolved that: a) a Director should not hold the office of non-Executive Director or Statutory Auditor in more than 6 (six) of the aforementioned companies; b) an Executive Director should not serve as a non-Executive Director for another issuer for which an Acea Director is an Executive Director.

Further, it resolved: 1) to not consider the position held in Acea SpA when calculating offices held; 2) to not consider any offices held in direct or indirect subsidiaries of Acea SpA, or in companies in which Acea SpA holds an equity investment when calculating offices held; 3) to not consider positions held on internal Board committees for the purposes of reaching the maximum limit for offices held.

On the basis of the updated communications received by the Company in implementation of the resolutions passed, all the Directors, at 10 March 2021, 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 with Shareholders’ equity exceeding € 1 billion.

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 CEO, in 2020, 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 in 2020 included, among other things, environmental, governance and business issues. In particular, emerging sustainable development scenarios were explored, as well as the principles and drivers behind the Group’s ERM Governance.

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 CEO 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 “SCIGR”) 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, the Group’s macrostructure and any amendments to the same that have a significant impact on the Group’s organisation;
- appoint the General Manager if deemed appropriate;
- define the Corporate Governance System and see to the establishment of specific internal committees, for which it appoints the members and approves the respective operating rules;
- adopt the organisational model pursuant to Italian Legislative Decree no. 231/2001, appoint the Supervisory Body and examine the half-yearly reports prepared by the SB on implementation of the MOG;
- appoint the Directors and statutory auditors due to Acea at significant subsidiaries and investees, understood to be those listed on regulated markets and those which require commitments of capital, Shareholder 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;
- determining the remuneration of the Chairperson, Chief Executive Officer and other Directors with specific duties, upon a proposal by the relevant committee and after hearing from the Board of Statutory Auditors, as well as the remuneration due to the members of Board of Directors committees and remuneration of Executives with strategic responsibilities, except for cases in which this latter has been approved by the Appointment and Remuneration Committee;

- define the Guidelines, after hearing from the Control and Risks Committee (hereafter, also CRC), whose responsibilities are illustrated in chapter 9, so that the main risks relative to Acea and the main Group companies are properly identified, measured, managed and monitored;
- evaluate the adequacy of Acea's organisational, administrative and accounting structure, as well as that of subsidiaries with strategic relevance, particularly with reference to 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 Statutory 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 (as per 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;
- assess, having consulted with the Board of Statutory Auditors, the results found by the independent auditor contained in the letter of suggestions, where applicable, and in the 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, describe its main characteristics in the Report on Corporate Governance, expressing its opinion on adequacy of the same, after hearing from 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;
- act so as to establish continuous dialogue with Shareholders, based on understanding of the reciprocal roles;
- promote initiatives to support the widest possible participation of Shareholders at Shareholders' Meetings and to make the exercising of voting rights easy;
- adopt, by proposal of the CEO, 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 2020, it assessed the general business trend on the occasion of the financial reporting (the draft Financial Statements of the period as at 31 December 2019; 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;
- completed 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 for the Acea Group which, in any case, may be subject to review as part of the process of implementing the new Corporate Governance Code;
- approved the Sustainability Report/Consolidated Non-Financial Disclosure for 2020, pursuant to Italian Legislative Decree no. 254/2016.

On 10 March 2021, 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;
- proceeding, as an integral part of this process, to self-evaluation of the composition and functioning of the Board and its internal Committees. This self-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 2020 the Board of Directors held 12 meetings, lasting on average approximately 2 hours 55 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, 4 (four) meetings have been held since the beginning of 2021.

The calendar of the main corporate events 2021 (communicated to the Market and to Borsa Italiana SpA in accordance with regulatory requirements) includes 3 more meetings on the following dates:

- 12 May 2021 – approval of the interim report on operations as at 31 March 2021;
- 28 July 2021 – approval of the semi-annual report as at 30 June 2021;
- 10 November 2021 – approval of the interim report on operations as at 30 September 2021.

In 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, with-

out delay, to the CEO 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 CEO, to the Chairperson of the Board at least 6 days before the Board meeting.

The Chairperson 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.

The self-evaluation process confirmed that presentation of points on the agenda at meetings is precise and accurate, and provided the Directors with the relevant information for acting in an informed manner. While areas for improvement were identified with regards to the time at which information is circulated, the Directors agree that the documentation is clear, complete and easily accessible, that the duration of meetings is consistent with the importance and complexity of the issues dealt with and that in specific cases when it is not possible to provide supporting documents appropriately in advance, the Chairperson has ensured that adequate information was provided during Board meetings.

Also note that Acea did not make any derogations to the terms established in the current Regulation for confidentiality, and obtained software specifically to allow for secure management of Board of Directors meetings and "protected" transmission of the relative information and documented.

This system makes it possible to use various levels of security. Therefore, increasing usage of this platform and usage of the higher security levels that it offers also makes it possible to protect against greater information protection requirements which may arise, without compromising completeness, usability and timeliness.

Finally, note that after the appointment of the current administrative body (on 29 May 2020), a process was begun to revise the aforementioned Regulation to align it with developments in the regulatory context and operating practices which have arisen in the meantime within the Board, as well as with corporate governance best practices consolidated over time, until they were included in the Corporate Governance Code. This regulation, which confirms the current terms for the prior sending of Board information, making use of the tools adopted in order to ensure information is complete, usable and prompt while also complying with the needs for confidentiality (e.g. a specific IT system), was approved at the Board meeting on 1 March 2021.

During 2020, at meetings of the Board of Directors, managers of the Company and its subsidiaries with responsibilities relative to the various issues on the agenda were invited to participate who, upon invitation from the CEO, provided appropriate information on the issues in question and, when it was time for the Board to decide, left the meeting. The contribution offered by management to understanding and examining the issues on agendas was assessed positively by members of the Board of Directors in the self-evaluation.

Evaluation of the functioning of the Board of Directors and its Committees

On 23 September, the Board of Directors resolved to carry out the evaluation process on the size, composition and functioning of the Board and its Committees on an annual basis (Board Review), making use of an independent external consultant.

In the context of the activities surrounding the relative appointment, the Appointment and Remuneration Committee discussed the start of the self-evaluation process and methods for executing the same. After a competitive process, the company appointed Koinè (which held the necessary independence requirements) to

assist it in this process for the three-year duration of its term and, therefore, for the years 2020, 2021 and 2022.

The Board Review process is presided over by the Chairperson of the Acea Board of Directors and the Appointment and Remuneration Committee. The Chairperson of the Board of Directors is responsible for ensuring that the methods used to carry out the self-evaluation process are effective and consistent with respect to the complexity of the Board's work and that the corrective measures established to deal with any problems found are effectively adopted, while the Appointment and Remuneration Committee, with the assistance of the consultant Koinè, is responsible for supporting the Board during the various stages of the process.

The Appointment and Remuneration Committee, supported by the Board of Directors Secretary, carried out research and supported the entire Board Review process.

The Board Review was structured by the Appointment and Remuneration Committee and the initial stage was carried out through the completion of a questionnaire prepared by Koinè by each Director, intended to evaluate the size, composition and functioning of the Board of Directors and internal Board Committees. The second stage of the 2020 Board Review involved individual interviews carried out by the Koinè team to further investigate the most significant aspects identified from the questionnaire answers.

More specifically, the questionnaire prepared by Koinè to carry out self-evaluation relative to the size, composition and functioning of the Board of Directors and Board Committees for 2020 contained specific questions intended to, among other things, obtain information from Directors with regards to the adequacy of the process used to define and approve the strategic plan, the time dedicated to investigating its various aspects, the level of involvement of the administrative body in monitoring its implementation, and evaluating the sustainability of the business, based on adequate understanding of risks and management of the same by management.

The questionnaires and interviews concerned in particular:

- the qualitative/quantitative size and composition of the Board of Directors;
- organisation of work and execution of Committee work;
- method of working, cohesion and interaction of Directors;
- the composition and operation of the committees and the effectiveness of their activities in support of the Board of Directors;
- the role and coordination of Independent Directors;
- Board dynamics and the overall efficacy of Board work.

In structuring the questionnaire, some of the results coming from the 2019 self-evaluation process (found in the 2019 report) were taken into account, which are reported here for simplicity's sake: "*... 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*".

Therefore, the questionnaire did not evaluate, due to the above, as well as due to the fact that this was the first year of the term for the Board of Directors, questions on implementation or follow up with regards to actions deriving from the Board Review for the outgoing Board. This aspect will be taken into consideration in subsequent self-evaluation exercises, for the issues and areas that arise, following the guidelines and directives approved by the Board of Directors to that end.

As part of the Board Review process, the consulting company also carried out benchmarking with regards to the structure and functioning of the Board of Directors and internal Committees of Acea with two distinct groups of peers, represented by: 1) 41 non-financial Mid-Cap companies and 2) 13 listed companies in the public utilities sector.

This comparison obtained positive results with regards to: 1) the high weight of the non-Executive (and independent) Directors, also from minority interests, 2) the number of meetings, in line with those of peers, both in terms of size and sector, 3) the duration of meetings, both Board and internal Committees, in general higher than those of peers (third quartile) and 4) high participation in corporate events (in line with peers).

The results of the Board Review for financial year 2020 provide a widely satisfactory overall judgement relative to the size and composition of the Acea Board of Directors and its Committees, the efficacy of Board dynamics and the work and contributions provided by the internal Committees. Therefore a positive assessment emerged with regards to the functioning of these bodies, their efficacy and transparency, compliant with national and international best practices for corporate governance.

In particular, the results of the board review for 2020 revealed the following main strengths:

- the composition (Executive, non-Executive, independent) of the Board was judged appropriate and balanced in terms of diversity (gender, age, background, etc.);
- the number and frequency of Board of Directors meetings was judged appropriate;
- the climate within the Board of Directors is positive and encourages debate, which is always open, of high quality and respectful of the roles held by each Director; the Board is able to find harmonious solutions even in problematic and complex situations;
- the process for defining and approving the strategic plan was judged appropriate and the Board had sufficient time to examine research regarding various aspects of the plan;
- important questions are promptly brought to the attention of the Board of Directors; the CEO responds effectively, promptly and exhaustively to questions coming from other Directors;
- the Committees carry out their activities autonomously and independently and effectively support the Board in the issues for which they are responsible;
- frequent “induction” meetings ensure Directors are appropriately prepared.

With regards to areas for improvement identified, which should in any case be considered as part of an overall positive environment, these included:

- the need to better structure coordination between independent Directors;
- further refinements to the timing used for the circulation of documents for meetings, in particular those for the most significant transactions and/or issues;
- the expediency of reviewing the delegation system, so as to further focus the attention of the Board of Directors on genuinely strategic issues;
- the expediency of assessing the name of the Executive Committee, which does not appear to be in line with its current functions;
- the expediency of finalising formalisation of Succession Plans for top management;
- the expediency of assessing the structure of the Related Parties Committee and the Appointment and Remuneration Committee as part of activities to adjust to the new regulations (post Directive SHR II).

On the basis of the comments received and analysis carried out, the Board of Directors expressed a positive judgement on Acea’s compliance with the indications contained in the Self Governance Code, and confirmed the overall basic solidity of its corporate gov-

ernance structure, the functioning of the Board of Directors and support coming from company structures.

4.4 DELEGATED BODIES

Chief Executive Officer

In May 2020 the Board of Directors appointed Giuseppe Gola as CEO, to whom, pursuant to 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 CEO 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 2020 (with reference to the issues that, according to said structure, are reserved to the Board of Directors, see paragraph 4.3). In particular, the CEO:

- 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 powers of the CEO are exercised for transactions with a value up to € 7.5 million (tender contracts, procurement, rents, disposals, participation in tenders, etc.), if in line with the budget and up to € 1 million for off-budget transactions; for Group subsidiaries operating in the electricity and gas markets, the powers granted to the CEO include: i) issuing sureties of other guarantees up to € 12 million if in line with the budget and up to € 2 million if off-budget, ii) issuing all sureties and other obligatory guarantees in favour of Arera, GSE, GME, Terna SpA, the Single Buyer, other public entities and distribution concessionaires;
- signs tender contracts of any amount awarded on the basis of Italian Legislative Decree 50/2016, as amended;
- implements organisational and procedural changes to Parent Company activities in line with the guidelines resolved by the Board of Directors;
- presides over and coordinates the Executive Committee, a consulting committee consisting of Company Executives, which is responsible for monitoring the Group’s economic and operating situation and that of the individual companies, identifying any discrepancies with regards to planned objectives;
- ensures correct management of corporate information. To this regard, we refer you to chapter 5 *Corporate Information Processing*.

The CEO 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 activity 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 CEO 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).

Chairperson

The Chairperson of the Board of Directors, Michaela Castelli, pursuant 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 29 May 2020, it was established that the duties associated with the office of Chairperson 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.

Chairperson and CEO, Joint Powers

By Board resolution of 29 May 2020, moreover, joint powers were delegated to the Chairperson and the CEO 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 under art. 116 of the TUF;
- those requiring capital commitments, Shareholders' loans or guarantees exceeding € 10 million.

In addition, the Chairperson and the CEO 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".

Informing the Board

The Board of Directors, as also the Board of Statutory Auditors, pursuant to art. 20 of the Articles of Association and the provisions of law, receives from the Chairperson and the CEO 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 CEO 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.

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 acceptance of the appointment, and subsequent verification by the Board of Directors at the first meeting after the appointment. Subsequently, assessment of the existence of the independence requirements for Directors is done on the basis of information provided by the interested parties; in evaluating the independence requirements for Directors, no changes were made with regards to the parameters indicated in the Corporate Governance Code.

In the month of March 2021, the process to evaluate the independence of the Directors was completed, pursuant to the Corporate Governance Code. Based on all the information available to the Company, the information provided by the individual Director relative to the presence of any significant relations in terms of independence, as well as the declarations received, it holds that the independence requirements established under art. 148, para. 3 of the TUF and under recommendation 7 of the Corporate Governance Code are held by the Directors Liliana Godino, Gabriella Chiellino, Giacomo Larocca, Alessandro Caltagirone and Massimiliano Capece Minutolo del Sasso.

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 necessary to hold a separate meeting for the independent Directors, also in consideration of the quality of the information received by the delegated bodies and their active participation on the Board and on the internal Board Committees.

Moreover, within 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 reference to the recommendation of the Italian Committee for Corporate Governance, note that after the new Board of Directors took office, based on instructions from the Chairperson and in compliance with indications received from the Board of Statutory Auditors, the Company began a process to adopt a procedure for evaluating the independence of Directors which aims to, among other things, establish precise quantitative and/or qualitative criteria for assessing the significance of relationships with regards to independence, in particular relative to commercial, financial and professional relations, included indirect.

To that end, with the proposed procedure which will be submitted to the relevant company bodies for examination, the expediency of adopting differentiated parameters may be examined, with regards to: 1) commercial or financial relationships, 2) professional services and 3) so-called “significant additional remuneration”.

4.7 LEAD INDEPENDENT DIRECTOR

On 10 March 2021 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 Chairperson 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 CEO, 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 corporate 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.

The creation is also required, pursuant to art. 18, par. 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", which indicates entities who have access to all inside information;
- 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: *"inside information means 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 which, if rendered public, could have a significant effect on the prices of those financial instruments or on related derivative financial instruments". Information is deemed precise if *"it refers to a series of existing circumstances or which could be reasonably held to occur or an event which has occurred or which could be reasonably understood to occur and if this information is sufficiently specific to allow the drawing of conclusions about the possible effect of this combination of circumstances or of the event on prices of financial instruments or the relative 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 with 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 the same must inform the Company, pursuant to the referenced regulation, 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. INTERNAL BOARD COMMITTEES (pursuant to 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 Risks 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 Chairperson 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, the Control and Risks Committee regulations establishes that said Committee must be formed of at least three non-Executive Directors, the majority of whom must also be independent Directors. The committee Chairperson 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, said Committee must be formed of at least three non-Executive Directors, the majority of whom must also be independent Directors. The committee Chairperson 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 establish that the said Committee must be formed of at least three non-Executive Directors, the majority of whom must also be independent Directors. The committee Chairperson 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 make use 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 Chairperson 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 chairperson.

In particular, the Director in charge of the Internal Control and Risk Management System and the Chairperson 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 CEO 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 CEO and the Chairperson of the Board of Directors may attend meetings of the Ethics and Sustainability Committee. The Chairperson 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 Chairperson 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

As of the date of this report, the Appointment and Remuneration Committee consists of four non-Executive Directors, of whom the majority independent, specifically: Massimiliano Capece Minutolo del Sasso (Chairperson), Liliana Godino, 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 11 meetings in 2020, 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 25 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 CEO, 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 CEO, 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, which the Directors must present to the annual Shareholders' Meeting.
7. it gives the Board its views on the dimensions and composition of the Board itself and makes recommendations as regards the management team and professionals whose presence is deemed necessary;
8. 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");
9. 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 2020 among other things the Committee:

- in the context of research relative to the Company's remuneration policy, analysed the current long-term incentive plan, assessing the expediency of revising it, taking into account remuneration policies generally used in the reference sectors and in companies of similar size;
- submitted a proposed diversity policy to the Board of Directors for approval, referring to the composition of Acea SpA's administrative and control bodies, in terms of age, gender and educational and professional background;
- submitted the remuneration report pursuant to art. 123-ter of the TUF to the Board of Directors for approval and, in particular, the section on the remuneration policy for Directors and Executives with strategic responsibilities for the year 2020;
- noted the achievement of economic/financial objectives and authorised payment of the short-term variable incentive programme "MBO 2019" ("Management By Objectives");
- submitted a proposal to the Board of Directors on establishing performance objectives for the short-term variable component "MBO 2020" for the CEO and Executives with strategic responsibilities;
- after the appointment of the new Board of Directors by the Shareholders' Meeting on 29 May 2020, submitted the proposal for the fees due to the Chairperson and CEO to the Board of Directors for approval, pursuant to article 2389, para. 3, Civil Code, to be submitted to the administrative body;
- submitted the proposal for additional compensation for members of the Appointment and Remuneration Committee, Control and Risks Committee, Ethics and Sustainability Committee, the Related Party Transactions Committee and the Executive Committee to the Board of Directors for approval;
- took note of the vote expressed by institutional investors regarding the Report on the Remuneration Policy and the Remuneration Paid for 2020.

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 of the Boards of Statutory Auditors of the Group's significant companies;
- received an update on the project intended to identify potential successors for top level management;
- proposed to the Board of Directors the adoption of a series of guidelines for Company Shareholders on the size and composition of the new Board of Directors;
- examined and proposed that the Board of Directors review the guidelines expressed at the meeting of 23 March 2011 on the maximum number of positions on administrative or control bodies of other companies listed on regulated markets, finan-

cial, banking or insurance companies or, in any case, of a significant size such as to be considered compatible with effective execution of the office of Director of the Company;

- examined the proposal to be made to the Board of Directors for the appointment of the Company's Supervisory Body.

In 2021, as at the date of this Report, the committee has met 2 times, with an average duration of around 3 hours.

The Board of Directors has confirmed the allocation of an annual budget for 2021 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 10 March 2021, 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 <https://www.gruppo.acea.it/it> and it will be subjected to a vote of the meeting of the Board of Directors, which will be held for the approval of the Financial Statements relating to financial year 2020.

During the Shareholders' Meeting of 29 May 2020, the fixed gross annual fee was confirmed for the members of the BoD.

Already in 2016, the Shareholders' Meeting gave the Board of Directors the right to determine fees, pursuant to art. 2389, para. 3 of the Civil Code, for Directors holding special roles.

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:

- a significant 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, measurable and aimed at promoting sustainable success – indicated in advance by the Board of Directors itself, as detailed in Section I 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. Based on this clause, the Company is granted the right to request the restitution of variable remuneration (both short and long-term), should these components be found to have been paid on the basis of conduct of a malicious nature and/or due to serious misconduct, such as the intentional alteration of the figures used in achieving the objectives or obtaining these figures through conduct contrary to the corporate or legal regulations.

Note that in a market context in which the connection between variable remuneration mechanisms and the achievement of social and environmental as well as economic results is increasingly widespread, also after Legislative Decree 49/19 to encourage long-term commitment from Shareholders, the Acea Group is acting to further integrate sustainability in its business activities, also during 2021. In fact, in continuity with the previous year, the short-term incentive plan includes both economic and financial objectives and those relating to sustainability.

Similarly, the new Long Term Incentive Plan includes parameters intended to align the interests of management with those of Shareholders and closely linked to the Group's Business Plan, through the use of economic/financial indicators and indicators which recognise the creation of value which is sustainable over the medium/long-term.

Remuneration of Executive Directors and Executives with strategic responsibilities

For details on the remuneration package for the Chairperson and the CEO, as well as for other Executives with strategic responsibilities, please refer to the Report on the remuneration policy and on the remuneration paid 2021, Financial Year 2020, Section II, pursuant to art. 123-ter, TUF.

Incentive mechanisms for the manager of the Internal Audit function and the Financial Reporting Officer

The short-term incentive plan for the Manager in charge of the Internal Audit department and the Executive Responsible for financial reporting are subject to an annual review.

Their objectives are composed of KPIs consistent with their duties. The Executive Responsible for financial planning is also the beneficiary of a Long-Term Incentive Plan.

Remuneration of non-Executive Directors

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 emerged that the total remuneration paid to the members of the Board of Directors was 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. In the light of this process, the Company will continue to monitor the most common market practices, also making use of compensation surveys and market analyses conducted by leading operators in the sector, with a view to aligning its policy with these practices. To that end, analysis may also be extended to foreign experiences, when 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 (art. 123-bis, par. 1, lett. i, TUF).

In reference to the policies in force in the event of contract termination, please refer to the provisions established by the Collective Labour Agreement (CCNL) for Executives of Public Utility Service Companies, parts IVa) and Va) of which regulate the methods for the definition of the contract terminations of Executives and the “Executive Exodus Management” Policy approved by the Board of Directors with Resolution no. 33 of 21 December 2011, which is still in effect. The “Executive Exodus Management” Policy refers to the Collective Labour Agreement (CCNL) considers the

short and long-term fixed and variable components on a monthly basis. The CEO Mr. Gola, is entitled to receive the maximum amounts provided for by the policy.

No agreements have been stipulated between Acea and the directors in office which contemplate non-competition agreements or indemnity in the case of their dismissal or resignation/revocation without just cause.

Following the departure from the Group of the CEO Mr. Stefano

Antonio Donnarumma, the Appointment and Remuneration Committee submitted to the Board of Directors a proposal to pay as a bonus of € 996,000, paid up-front, in recognition of the remarkable results obtained and the decisive contribution in the three years spent at the helm of the Company.

This payment also covers the variable component applicable to all of the positions held, thus avoiding the risk of any potential disputes.

9. CONTROL AND RISKS 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 Chairperson of the Board of Statutory 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' Chairperson, 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.

Additionally, the Committee assists the Board of Directors by:

- evaluating, together with the Financial Reporting Officer, after hearing from the independent auditor and the Board of Statutory Auditors, the proper use of accounting standards and their homogeneity relative to preparation of the Consolidated Financial Statements;
- evaluating, together with the relevant Acea function, after hearing from the independent auditor and the Board of Statutory Auditors, the proper use of accounting standards adopted for the purposes of preparing the non-financial declaration pursuant to Italian Legislative Decree 254/2016;
- supporting, through adequate research, the assessments and decisions of the Board of Directors with regards to manage-

ment of risks deriving from prejudicial events of which the Board of Directors has become aware;

- expressing opinions to the Board of Directors on specific aspects inherent to the identification of the main risks for the company;
- examining periodic reports evaluating the Internal Control and Risk Management System, and those of particular import prepared by the Internal Audit function;
- monitoring the autonomy, adequacy, efficacy 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 Chairperson of the Board of Statutory Auditors, Chairperson 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.

As of the date of this report, the Committee consists of four Directors, specifically: Liliana Godino (Chairperson), Giacomo Larocca, Massimiliano Capece Minutolo del Sasso and Giovanni Giani.

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 2020, the Committee held 11 meetings of an average duration of approximately 2 hours and 22 minutes each, characterised by the regular attendance of all its members and the Chairperson of the Board of Statutory 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 Chairperson provides the Board of Directors with periodic information on the Committee's operation/activities.

In 2020 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 used to prepare the NFD relative to financial year 2020, as well as progress in assurance activities with regards to the document by the auditing firm PricewaterhouseCoopers;
- it began the process of monitoring and sharing with the relevant company departments the various intermediate steps of the process intended to prepare the NFD for financial year 2019; in this context, it was informed on the evolution and assessment of the applicability of the new GRI standard for the non-financial reporting cycle for 2020 and on the process of updating the materiality analysis linked to the Covid-19 emergency, to verify the adequacy of the 2019 "material" issues and determine their validity with reference to the new context;

- it evaluated, together with the Financial Reporting Officer, after hearing from the independent auditor and the Board of Statutory Auditors, the proper use of accounting standards and their homogeneity relative to preparation of the Consolidated Financial Statements;
- it expressed a favourable opinion on the Internal Audit's Plan, prior to its presentation to the Board for approval;
- it examined the periodic reports from the Internal Audit function regarding progress with the Audit Plan, the results of individual audit activities, implementation status for improvement actions established by management with regards to issues identified (monitoring and follow-up) and evaluations regarding the appropriateness of the SCIGR issued by the Internal Audit Function Manager;
- it monitored the autonomy, adequacy, efficacy 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 same Officer and on effective compliance with administrative and accounting procedures;
- after the emergency caused by the Covid-19 pandemic, it constantly kept up to date on actions implemented by the Company to deal with the emergency and guarantee compliance with the restrictive measures imposed to protect public health;
- reported to the Board, at least once every six months, at the time of the approval of the annual and interim financial reports, on the activity it performed and on the adequacy of the Internal Control and Risk Management System.

The Committee had access to the information and company departments necessary for the execution of its responsibilities. In 2021, as at the date of this Report, the Committee has met 2 times, with an average meeting duration of 4 hours and 30 minutes.

The Board of Directors has confirmed the allocation of an annual budget for 2021 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 four non-Executive Directors from Acea, the majority of which independent, specifically: Gabriella Chiellino (Chairperson), Giovanni Giani, Massimiliano Capece Minutolo del Sasso and Giacomo Larocca.

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 in relation to reporting aspects required under Italian Legislative Decree 254/2016, associated with the exercising of business activities and interaction dynamics between the company and all stakeholders and examine 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 2020, the Ethics and Sustainability Committee:

- was updated on the project on sustainability in the supply chain, by adding a sustainability indicator to the vendor rating model;

- was periodically informed on actions implemented by Acea to deal with the health emergency in terms of safety;
- carried out research on initiatives implemented by the Company on supplier sustainability ratings;
- carried out research on the smart working programme, also after the pandemic generated by Covid-19;
- was informed on the project to revise the 2020-2024 Sustainability Plan and, after the information received, expressed a positive opinion for the purposes of subsequent discussion by the Board of Directors on the revision of the previous Sustainability Plan and approval of the 2020-2024 Sustainability Plan under the terms established for its kick-off;
- 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 2020;
- monitored the “Covid-19 Emergency Materiality Analysis” process, intended to verify the adequacy of the 2019 “material” issues and verify their validity with reference to the new context;
- acquired information from the relevant structures on the evolution of the GRI Standards and evaluation of the applicability of the new standards for the non-financial reporting cycle for financial year 2019;
- received the interim report from the Ethics Officer, which serves to monitor compliance with the values of transparency, legality, equity and ethical integrity in relations with employees, suppliers, customers and all stakeholders, with regards to notifications received on presumed violations of the Ethics Code the law, internal regulations governing Group activities and any other conduct in violation of the behavioural principles established by the Acea Group (whistleblowing system);
- was informed about the activities implemented by the Company with reference to the Carbon Disclosure Project;
- was informed on results with regards to the Standard Ethics rating and the inclusion of Acea on the Multiutility EU Index. Relative to the Standard Ethics rating, both the long term expected rating and the outlook improved, respectively from stable to EE+ and from stable to positive.

During the period, the Ethics and Sustainability Committee held 9 meetings, with an average duration of 1 hour 25 minutes, mostly attended by its members.

In 2021, as at the date of this Report, the Committee has met 2 times, with an average meeting duration of 1 hour 50 minutes.

The Board of Directors confirmed the allocation of an annual budget for 2021 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.

The "Internal Control and Risk Management Guidelines" were approved by the Board of Directors in January 2020, with the aim of:

- providing guidelines for various actors involved in the SCIGR, so as to ensure the main risks impacting the Acea Group are properly identified and adequately measured, managed and monitored;
- identify principles and responsibilities with regards to governing, managing and monitoring risks linked to company activities;
- establish control activities 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- 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 CEO, 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 (Enterprise Risk Management 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.

Group management is responsible for identifying and evaluating risks, on the basis of the guidelines and methodological instruments defined. These activities are done so as to guarantee appropriate responses are suitably defined, to mitigate and monitor 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 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 Chairperson, the CEO, the Control and Risks Committee and the Board of Statutory 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/Operating 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 Commercial Practices Model; Organisation, Management and Control Model pursuant to Italian Legislative Decree 231/01;
- DPO Office: 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;
- Executive Responsible: Group Management and Control Model pursuant to Italian Law 262;
- Cyber Security: Group Cyber Security Model.

d) Comprehensive assessment of the adequacy of the Control System

See that indicated in paragraph 4.3 relative to the Board of Directors.

MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS (art. 123-bis, par. 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 evolution of the Group and reference best practices, which can allow the Acea Financial Reporting Officer and CEO to issue the market 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 Internal Control and Risk Management 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:

- financial Reporting Officer Regulation: defines the figure of the relative Officer and governs their activities based on that established in the Articles of Association and applicable laws, as well as regulating relations with internal and external stakeholders;
- periodic internal Acea Group reporting (annex 1 to the Financial Reporting Officer Regulation): governs the internal information flows for the Acea Group (internal certifications) that allow the Acea Financial Reporting Officer and CEO to issue certifications pursuant to 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.

In defining the current Model 262, Acea also considered the Confindustria and ANDAF Guidelines for Financial Reporting Officer activities relative to the preparation of company accounting documents.

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 Internal Control System for Acea Financial Reporting and for its consolidated companies of relevance to Financial Reporting (“relevant companies”), 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 contribution 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 makes it possible to identify and assess the “key” risks and controls deemed significant for the Consolidated Financial Statements.

To that end, for every process and activity control objectives and associated risks are defined, that is:

- Financial Statements claim: an element which must be respected when recognising business events so as to truly and accurately represent them in the Financial Statements;
- inherent risk: risk identified at the “inherent level”, that is not taking into account the existence and effective implementation of specific control techniques intended to eliminate the risk or reduce it to an acceptable level;
- residual risk: risk identified at the “residual level”, that is after controls, based on the characteristics of the control (detective vs. preventive and automatic vs. manual) and the adequacy of the same in terms of design.

In particular, Financial Statements claims considered in the Model are:

- *existence and occurrence* (business assets and liabilities exist on a certain date and the transactions recorded represent events which truly occurred during a given period);
- *completeness* (all transactions, assets and liabilities to be represented are effectively included in the Financial Statements);
- *rights and obligations* (business assets and liabilities respectively represent the rights and obligations of the company on a certain date);
- *measurement and recognition* (assets, liabilities, Shareholders’ equity, revenues and costs recognised in the Financial Statements in the proper amount, in accordance with generally accepted accounting standards);
- *presentation and disclosure* (Financial Statement items are properly denominated, classified and illustrated).

For each specific risk/objective subject to control, existing controls are identified (manual/automatic controls; prior/successive controls) in relation to each relevant process, in order to reach the objective of controlling and effectively mitigating the risk.

“Key” controls are then identified for each process, that is those

deemed most effective and efficient in guaranteeing that material errors in financial disclosures are prevented or promptly identified.

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 “key” 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 corrective action plan is submitted to the Financial Reporting Officer, for comprehensive evaluation of the system and coordination of the activities to be implemented, and is updated every six months by the relevant entities.

Comprehensive evaluation. To allow the Acea Financial Reporting Officer and CEO to issue the certifications pursuant to art. 154-bis of the TUF, a system of internal “linked” certifications has been established, described in detail in the next paragraph, with the aim of ensuring appropriate internal formalisation of responsibilities for the adequacy and effective application of administrative and accounting procedures, to prepare and communicate the corrective action plan, when necessary, and to update procedures (see point b) below, Roles and Responsibilities).

Hence, comprehensive evaluation is based on a complex assessment process which considers:

- assessment of the design of existing controls and evaluation of their functioning, carried out by Acea management and the delegated administrative bodies of relevant companies, at the time the corrective action plans are implemented;
- analysis of test results;
- final analysis of areas for improvement identified, with reference to their significance in financial reporting.

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 CEO, 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 for the execution and certification of the execution of the controls for which they are responsible, according to the procedures and timing laid down by the administrative and accounting procedures, reporting to the Process Manager, providing the basic information input for reporting;
- the 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 process in question; he must also update and ensure the implementation of the corrective action plan;
- the 262 Administrative Contact for the company/Acea Function represents the contact person within the Group’s relevant companies or within the Acea Function for all the activities necessary to allow the Acea FRO to issue the certification; they are responsible for consolidating all the information received from the Process Managers and for assembling the overall assessment of the design and implementation of the controls for the company/Acea Function in question, which they then submit to the major company’s delegated board of Directors: they are also responsible for guaranteeing the information flows to and from the FRO;
- the Delegated Administrative Body of Relevant Companies is responsible for evaluating the design and functioning of controls for the relevant company and for sending the internal certification letter to the FRO, using the established format, together with the duly validated Corrective Action Plan, also communicating any changes/risks which have arisen during the reference period which could influence the adequacy of the ICFR.

Finally, with reference to the other governing and internal and external control bodies for the Group, Acea has established a process to exchange information, 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 CEO 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 2020, the CEO – 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 Chairperson 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 INTERNAL 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 CEO in the activities of identifying and establishing the priorities of the major risks to which Acea and its subsidiaries are exposed.

At its meeting on 22 January 2020, 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:

- 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;
- it carried out additional audits with respect to the Audit Plan, requested by top management and the control bodies;
- prepared reports after individual audits 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 Committee;
- it constantly informed, by means of drawing up specific reports, the Chairperson of the Board of Directors, the CEO, 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 CEO;
- within the sphere of the Audit Plan, it verified the reliability of the information systems, including those of accounting disclosure;
- it supported the Acea Supervisory Body and those of the subsidiaries in the audits pursuant to Legislative Decree 231/2001;
- it monitored initiatives for overcoming anomalies found in the implementation and functioning of the controls, also through follow up activities;
- supporting the Ethics Officer, collected and processed, following the guidelines defined in the whistleblowing procedure, reports received relating to cases of alleged violations involving failure to comply with the law, internal regulations and the Code of Ethics;
- internally assessed the compliance of available resources and of the methodology adopted by the Internal Audit function in the execution of its activities with regards to the Internal Professional Practice Framework issued by the Institute of Internal Auditors;
- it drafted the final report in which it gives an assessment of the suitability of the Control System and sends it to the Chairperson of the Board of Directors, the Control and Risk Committee and the Board of Statutory Auditors, as well as the Appointed Director.

11.3 THE RISK & COMPLIANCE FUNCTION

Starting at the end of 2017, after having integrated the Risk & Compliance Function into the macrostructure, the Board of Directors continued to strengthen this fundamental safeguard for the government and management of the SCIGR.

In particular, this function is responsible for:

- guiding the implementation and development of the Group's ERM framework, guaranteeing effective and continuous implementation of the ERM process, also by coordinating and cooperating with other internal control structures, and ensuring reporting is provided to top management and corporate and control bodies on the evolution of the Group's overall risk profile, possible impacts on strategic and business objectives and on the implementation and monitoring of actions to respond to risks;
- serving a preventive and proactive role in the before the fact assessment of non-compliance risks for company actions relative to reference regulations (antitrust, Legislative Decree 231/2001, environment, etc.), examining the efficacy of processes with the objective of preventing violations of norms and rules, both internal and external and suggesting, in the case of discrepancies, the most appropriate solutions;

- 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;
- guaranteeing the definition, implementation and control over implementation of quality, environmental, safety and energy policies, in order to ensure QASE certification is obtained and maintained for the relevant processes;
- ensuring Group Governance Model design, implementation, monitoring and updating activities are performed, as well as those for the relative process taxonomy, in line with current regulations and best practices for the sector/market;
- guaranteeing alignment of Governance tools to the Group's operating model, ensuring the adequacy of the company's procedural and regulatory system and verifying the consistency of the same for the purposes of proper functioning of the Governance structure.

11.4 ORGANISATIONAL MODEL (pursuant to Legislative Decree 231/2001)

With the adoption of the Organisation, management and control model pursuant to Italian Legislative Decree 231/2001, Acea holds it has complied with the provisions of the law, the principles inspiring Legislative Decree 231/2001 (the "Decree"), the Corporate Governance Code and the recommendations issued by the supervisory and control authorities, with the aim of strengthening the control and Corporate Governance systems, in particular to prevent the predicate crimes of 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 dissemination, personal acquisition and concrete affirmation of a control culture, to safeguard the achievement of objectives;
- 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.

In relation to the various types of crime contemplated by Legislative Decree 231/01 and the relative sensitive activities, the MOG identifies functional and instrumental company processes, within the areas at risk of crimes, also referencing the general and specific safeguards which characterise the internal control system and which, consequently, recipients must carry out when performing their duties.

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 collegial body is appointed by the administrative body, with two external members, one of which is the Chairperson, who are experts on internal control and corporate criminal liability, as well as an internal member represented by the Internal Audit function manager.

The Acea Board of Directors at its meeting on 16 December 2020 renewed the appointment of the Supervisory Body which, based on the provisions of the MOG, will remain in office until approval of the Financial Statements subsequent to those for which approval will lead to the expiration of the current Board of Directors or, in the case of early expiration of the latter, will remain in office for 3 years.

The Board of Directors provides the SB with a specific annual budget of € 25,000.00 (twenty five thousand and zero cents), it being understood that, pursuant to that established in the Acea MOG, the Board of Directors ensures the SB has financial resources available to it for all requirements linked to the proper execution of its responsibilities, in order to guarantee and make concrete its autonomous “power of initiative and control”, which the Decree recognises it.

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 its internal and external stakeholders. Observance of these values is deemed of fundamental importance not only for achieving business development and efficiency objectives, but also to guarantee correctness and transparency in company practices, as well as reliability and reputation for the Company and Persons operating on their account.

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 therefore 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.

In implementing the principles of the Code, Acea has adopted a specific procedure to receive, analyse and process notifications of presumed violations of the Code of Ethics and the Organisation and Management Model pursuant to Legislative Decree 231/01, which ensures confidentiality and protects good faith whistle-blowers.

In compliance with regulatory provisions, in addition to traditional notification channels Acea has adopted a dedicated IT platform, through which internal and external entities can send notifications of suspect phenomena or behaviour, of irregularities in business actions, events or facts which could constitute a violation of inter-

nal or external norms, for Acea SpA and its subsidiaries, with the maximum guarantee of confidentiality.

Responsibility for managing notifications and for monitoring compliance with the values of transparency, legality, equity and ethical integrity in relations with employees, suppliers, clients and all stakeholders is entrusted to a collegial body called Ethics Officer.

In line with the principles expressed in the Code of Ethics, Acea has also worked to promote a culture of equal opportunity and to manage and support 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 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 SpA with an amendment to the Articles of Association of 13 November 2006, which requires this figure to be appointed by the Board of Directors.

At its meeting on 29 May 2020, the Company’s Board resolved to appoint Fabio Paris as the Financial Reporting Officer for Acea SpA, pursuant to art. 154-bis of Italian Legislative Decree no. 58/1998, who subsequently, with the Board resolution dated 17 June 2020, also took on the position of Finance and Control Administration Director for 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 CEO. In particular, in accordance with the Regulations approved by the Board of Directors of 15 May 2019, he must perform the following duties:

- provide adequate administrative and accounting procedures for the preparation of the Company's annual Financial Statements, the Consolidated Financial Statements and the Consolidated Interim Report;
- ensure the Financial Statements are prepared in compliance with applicable international accounting standards;
- ensure the Company's actions and communications disclosed to the market and the relative accounting disclosures, also interim, are consistent with the entries found in its documents, books and accounting files;
- 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 CEO 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 10 March 2021, 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

The Ethics Officer is the Group's collegial body with the responsibility for managing the system of reporting alleged violations for non-compliance with the law, internal regulations and the Code of Ethics (Whistleblowing System), as well as monitoring compliance with the values of transparency, legality, fairness and ethical integrity in relations with employees, suppliers, customers and all stakeholders. Its responsibilities also include promoting communication programmes and activities intended to further disseminate the principles of the Code within the Companies of the Group, as well as any updates made to the Code of Ethics, and issuing guidelines and operating procedures to reduce the risk of violations of the Code.

The Ethics Officer is composed as follows:

- Legal, Corporate Affairs and Corporate Services Management Director for Acea SpA (Ethics Officer coordinator);
- Risk & Compliance Function Manager for Acea SpA;
- Human Resources Department Manager for Acea SpA;
- Internal Audit Function Manager for Acea SpA.

The Ethics Officer makes use of support from a Technical Secretariat consisting of the Acea Internal Audit Function, to carry out its tasks and to send to the CEO 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.

11.7 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 timing.

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 between the Board of Statutory Auditors, Control and Risk Committee, audit firm, Financial Reporting Officer and the Internal Audit Manager;
- structured information flows between the second level control entities, top management, the Internal Audit function, the Risk & Compliance function and the control 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;
- support from the Internal Audit function for Acea Supervisory Body activities and for 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.

Based on amount, transactions are divided up 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* which have a value of no 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.

The Board of Directors has confirmed the allocation of an annual budget for 2021 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.acea.it 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

minority list; 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 Chairperson of the Board of Statutory Auditors will be chosen from those effectively elected from the minority list.

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-*quater* of the Regulations for Issuers by Executive Determination no. 44 of 29 January 2021 of the CONSOB (this quota is equal to 1% of the share capital).

14. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS

(pursuant to 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 individuals below, for which, pursuant to art. 144-*decies* of the Issuers' Regulation, a short professional description of each is provided:

- **Maurizio Lauri, Chairperson.** Born in Rome on 16 August 1962. Degree in Economics from LUISS, Master of Laws (LL.M.) – London School of Economics and Political Science, University of London. He has served as a Director, also with top positions, for companies, including listed and public, as well as serving as a member of the control bodies for various companies and non-commercial entities. A Chartered Accountant and Auditor, he was a member of the Task Force to Establish Behavioural Guidelines for Control Bodies, within the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Council of Chartered Accountants and Accounting Experts).
- **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. Member of the Scientific Committee of Rivista Minerva Bancaria and member of the Corruption Prevention High Level Course Scientific Committee, La Sapienza University. Since 2014, Manager of the CasmeF Research Centre of LUISS University, a research and consulting project on administrative fines for Italian banks and their effects on performance. She has participated, again with the CasmeF Research Centre, on the Federcasse design and consulting project to restructure cooperative credit in Italy and on the project relative to the Monte dei Paschi di Siena Group to define banking innovation processes. Author of the recent monograph, Pina Murè, Bittucci L. (2020), *Dalla traditional compliance al Regtech. Soluzioni innovative per il sistema dei controlli interni*, Egea. Since 2019, she has held positions on the Boards of Statutory Auditors for banks and listed companies. She provides consulting for financial intermediaries on organisation, internal control systems, M&A transactions and strategies, organisational, strategic and financial restructuring, as well as providing training for banks and financial intermediaries on organisation, internal control systems, strategic planning, governance and banking regulations. A member of the Register of Auditors.
- **Maria Francesca Talamonti, Standing Auditor.** Born in Rome on 05 January 1978. Graduated in Economics and Business at LUISS Guido Carli, PhD in Business Administration from Roma Tre University. She is a member of the Order of Chartered Accountants of Rome and is listed on the Register of Certified Auditors. Since 2006 she has provided corporate consulting, in particular: company appraisals, preparation of recovery

plans and certifications pursuant to art. 67, 182-bis and 161 of the Italian Financial Law, preparation of opinions and technical consulting on accounting and corporate matters. Since 2006, she has considered an expert, with a research grant and various additional teaching contracts at the LUISS Guido Carli, Roma Tre and Unitelma Sapienza universities. She is a member of the administrative and control bodies at both listed and unlisted companies.

- **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 in Rome and a member of the Board of Statutory Auditors for both listed and unlisted companies and on the Supervisory Body.
- **Maria Federica Izzo, Alternate Auditor.** Born in Ascoli Piceno on 27 January 1981. A Chartered Accountant and Auditor, she is an academic, in particular 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 carrying out its duties, it coordinates with the Internal Audit function mainly through periodic meetings to illustrate the work plan for independent monitoring activities and results of the main actions carried out during the year. It also cooperates with the Control and Risks Committee, by the participation of the Chairperson 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.

In particular, the Shareholders' Meeting determined the annual lump sum fees due to the Chairperson of the Board of Statutory Auditors and for each Standing Auditor in the amount of, respectively, € 150,000.00 and € 100,000.00, as well as reimbursement of expenses necessary to carry out the role of Auditor. During the period, the Board of Statutory Auditors held 19 meetings, with an average duration of 3 hours 15 minutes, regularly attended by the statutory auditors.

In 2021, as at the date of this Report, the Board has met 3 times with an average meeting duration of 3 hour 25 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. This information 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 & Sustainability Function, which reports to the CEO, the Manager of which is Stefano Raffaello Songini. The Investor Relations Unit reports to this Function, the Manager of which is 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.

In 2020, conference calls with the financial community were organised, also on the occasion of approval of the annual and interim results and of the 2020-2024 Business Plan. More than 240 analysts/investors took part in these. In consideration of the serious Covid-19 pandemic which spread globally during 2020, "virtual" roadshows were used more frequently, during which "one on one" meetings and larger presentations were held with around 220 equity investors, buy side analysis and credit investors/analysts. The Company participated in the Utility Conference organised by Borsa Italiana and major business banks, most of which was carried out virtually.

In addition, to ensure timely notification to Shareholders and Investors, corporate documents, press releases, notices and other information concerning the Group are 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 Acea Group's website.

16. SHAREHOLDERS' MEETINGS

(pursuant to 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 2020 and through to the present date, art. 10 establishes the methods for calling a Shareholders' Meeting, establishing under 10.3 that:

"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 provides 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 end of the financial period, or within 180 days of the said closure in the case of the conditions contemplated by art. 2364 of the Civil Code".

Art. 11.2 provides 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 become 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, exercise control, are under the control, or are in the same group as the Shareholder;
- a group formed of entities associated with the Shareholder, even if it does not have a corporate form;
- a group formed of natural or legal persons which, directly or indirectly, explicitly or through determining behaviour, have signed or in any case adhere to agreements of the type contemplated under art. 122 of Legislative Decree 58/98, if these agreements involve at least 8% of equity 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 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 established under articles 6, point number 5, states 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 Company’s 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 Chairperson (of the Shareholders’ Meeting) from the moment the Meeting is constituted until the Chairperson of the Meeting declares the discussion on the item closed. In giving the floor, the Chairperson 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 ten minutes (10)”.

In 2020 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 2020 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.

The Directors who participated in the 2020 Shareholders’ Meeting numbered 2.

Recall that the points on the agenda for the Shareholders’ Meeting included appointing the Board of Directors.

17. OTHER CORPORATE GOVERNANCE PRACTICES (pursuant to art. 123-bis, para. 2, lett. a), TUF)

Executive Committee

With a resolution dated 29 May 2020, the Board of Directors established an Executive Committee composed of Giovanni Giani (Chairperson), Michaela Castelli, Giuseppe Gola 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 2020 financial year, the Executive Committee met 10 times with an average meeting duration of 1 hour.

As at the date of this Report, the Committee has met 2 times, with an average duration of 1 hour and 35 minutes.

Note that in March 2021, considering that, also after result of the board review activities, the name and qualification of the Committee was deemed by the Directors to not align with the functions it is concretely assigned, the Board of Directors resolved to appoint a new internal Committee, taking over for the aforementioned Executive Committee, to be called the Territorial Committee, with consulting responsibilities relative to the assessment and monitoring of group sponsorship and donation initiatives, and the objective of strengthening the relationship with the relevant territory.

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 22 DECEMBER 2020 OF THE CHAIRPERSON OF THE CORPORATE GOVERNANCE COMMITTEE

On 22 December 2020, as part of the monitoring of the implementation of the Code by issuers, the Chairperson 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.

In response to input from the Chairperson, at its meeting on 10 February 2021 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 Corporate Governance system

is substantially aligned with the indications 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 18 February 2021.

For more details, please see that found in the specific sections of the Report and in particular in section 4.1 (*Appointment and replacement – Succession Plans*); 4.3 (*Role of the BoD – Functioning and Evaluation of the Functioning of the BoD and Committees*); 4.6 (*Independent Directors*) and 8 (*Remuneration of Directors*).

For the Board of Directors Chairperson

The Chairperson
Michaela Castelli

TABLES

TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE

SHARE CAPITAL STRUCTURE				
	no. shares	% respect for c.s.	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 (granting the right to subscribe newly issued shares)				
	Listed (indicate the markets)/ unlisted	no. instruments in circulation	Category of shares serving conversion/exercising/	no. of shares serving the conversion/exercising/
Bonds convertible	-----	-----	-----	-----
Warrant	-----	-----		

SIGNIFICANT EQUITY INVESTMENTS on CONSOB website as at 10 March 2021				
Declarant		% stake of capital ordinary		% stake 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	Capitolium S.r.l.	0,141%		5,452%
	Caltagirone SpA	1,174%		
	Fincal SpA	3,052%		
	FGC SpA	1,085%		

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES
BOARD OF DIRECTORS

Position	Members	Year of birth	Date of initial appointment *	In office from	In office to	List (M/m) **	Exec.	Non Exec.
Chairperson	Michaela Castelli	1970	27/04/2017	29/05/2020	31/12/2022	M		x
CEO	Giuseppe Gola	1964	29/05/2020	29/05/2020	31/12/2022	M	x	
Director	Giacomo Larocca	1978	29/05/2020	29/05/2020	31/12/2022	M		x
Director	Gabriella Chiellino	1970	27/04/2017	29/05/2020	31/12/2022	M		x
Director	Liliana Godino	1962	27/04/2017	29/05/2020	31/12/2022	M		x
Director	Giovanni Giani	1950	coop. BoD 29/11/2011 Ass. 04/05/2012	29/05/2020	31/12/2022	m		x
Director	Alessandro Caltagirone	1969	27/04/2017	29/05/2020	31/12/2022	m		x
Director	Massimiliano Capece Minutolo del Sasso	1968	23/04/2015	29/05/2020	31/12/2022	m		x
Director	Diane Galbe	1981	11/12/2019 (cooptation)	29/05/2020	31/12/2022	m		x

DIRECTORS LEAVING OFFICE DURING FINANCIAL YEAR 2020

Position	Members	Year of birth	Date of initial appointment *	In office from	In office to	List (M/m) **	Exec.	Non Exec.
CEO	Maria Verbena Sterpetti	1986	17/04/2019	17/04/2019	31/12/2019	M		x
Director	Stefano Antonio Donnarumma	1967	27/04/2017	27/04/2017	31/12/2019	M	x	

no. meetings held in 2020: 12

Executive Committee: 10

Quorum required for the submission of lists by minorities for the election of one or more members (per art. 147-ter TUF): 1% of 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 S.p.A.'s BoD

** This column indicates the list from which each Director was taken ("M": majority list; "m": minority list).

BOARD OF DIRECTORS

Position	Members	Indep. from code	Indep. from TUF	no. other positions ***	Executive Committee			Committee Audit and Risk		Appointments and Remuneration Committee		Ethics and Sustainability Committee	
					(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)
Chairperson	Michaela Castelli			6	13/13	M	8/8	M	10/11			M	7/8
CEO	Giuseppe Gola			-----	8/8	M	7/7						
Director	Giacomo Larocca	x	x	-----	8/8			M	7/7			M	6/6
Director	Gabriella Chiellino	x	x	1	11/12					M	10/11	P	8/9
Director	Liliana Godino	x	x	-----	12/12			P	10/11	M	11/11		
Director	Giovanni Giani			-----	12/12	P	10/10	M	9/11	M	10/10	M	7/9
Director	Alessandro Caltagirone	x	x	4	12/12								
Director	Massimiliano Capece Minutolo del Sasso	x	x	2	12/12	M	10/10	M	11/11	P	11/11	M	6/6
Director	Diane Galbe			-----	10/12								

Position	Members	Indep. from code	Indep. from TUF	no. other positions ***	Executive Committee			Committee Audit and Risk		Appointments and Remuneration Committee		Ethics and Sustainability Committee	
					(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)
CEO	Maria Verbena Sterpetti	x	x	-----	4/4								
Director	Stefano Antonio Donnarumma			-----	4/4		3/3						

Control and Risks Committee: 11 Appointments and Remuneration Committee: 11 Ethics and Sustainability Committee: 9

*** 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": Chairperson; "M": member.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

BOARD OF STATUTORY AUDITORS
Quorum required to present lists upon the last appointment: 1% of the shares with voting rights

Position	Members	Year of birth	Date first appointment *	In office since	In office to	List (M/m)**	Independence from Code	Attendance at meetings	Number of other offices
Chairperson	Maurizio Lauri	1962	2019	17/04/2019	31/12/2021	m	x	19/19	4
Standing auditor	Pina Murè	1967	2019	17/04/2019	31/12/2021	M	x	18/19	---
Standing auditor	Maria Francesca Talamonti	1978	2019	17/04/2019	31/12/2021	M	x	19/19	20
Standing auditor	Maria Federica Izzo	1981	2019	17/04/2019	31/12/2021	M	x	N. A.	N. A.
Standing auditor	Mario Venezia	1957	2019	17/04/2019	31/12/2021	m	x	N. A.	N. A.

No. meetings held in 2020: 19

Quorum required for the submission of lists by minorities for the election of one or more members (per art. 148 TUF): 1% of 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 pursuant to art. 144-*quinquiesdecies* of the CONSOB Issuers' Regulations.

**TABLE 1.
COMPOSITION OF THE ACEA BOARD OF
DIRECTORS AND OFFICES HELD BY DIRECTORS
IN OTHER COMPANIES AS AT 31 DECEMBER 2020**

Position	Name	Position	Other Offices ⁽¹⁾
Chairperson **	Michaela Castelli	Director	Nexi SpA (P) La Doria SpA Recordati SpA
Chief Executive Officer	Giuseppe Gola	Executive Director	-----
Director	Gabriella Chiellino	Independent Director	Ambhientesis SpA -----
Director	Maria Verbena Sterpetti	Director Independent	-----
Director	Liliana Godino	Director Independent	-----
Director	Giovanni Giani	Director Independent	-----
Director	Alessandro Caltagirone	Director Independent	Aalborg Portland Holding A/S (VP) Cementir Holding N. V. (VP) Caltagirone SpA Caltagirone Editore SpA
Director	Diane Galbe	Director Independent	-----
Director	Massimiliano Capece Minutolo del Sasso	Director Independent	Vianini SpA Piemme SpA

* List of Director or statutory offices held by each Director in other companies listed on regulated markets, also abroad, in financial, banking and insurance companies and companies with Shareholders' equity exceeding € 1 billion.

** For the sake of completeness, other offices held are presented, even if not relevant for the purposes of this table: Sea SpA (P) and Autogrill Italia SpA (member CS).

2020

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

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Acea SpA

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