

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 TERNA. In relation to the institutional entity Terna, the Company is the input Dispatch User for Acea Produzione and other companies in the Group. It performed the following main activities in the period:

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

In 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 “inaccessible” 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/idr, 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/Idr 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/Idr 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/Idr 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/Idr, 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/Idr 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/idr.

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-Vesuviano 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 $Opex_{O\&M}$ 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