ACEA FINANCIAL STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

The Financial Statements of Acea SpA for the year ended 31 December 2020 were approved by Resolution of the Board of Directors on 10 March 2021, which authorised their publication. Acea is an Italian public limited company, with a registered office in Italy, Rome, piazzale Ostiense, 2, whose shares are traded on the Milan stock exchange.

COMPLIANCE WITH IAS/IFRS

The Financial Statements have been drafted in accordance with the International Financial Reporting Standards (IFRS) effective on the date of drafting the Financial Statements, approved by the International Accounting Standards Board (IASB) and adopted by the European Union, consisting of the International Financial Reporting Standards (IFRS), by the International Accounting Standards (IAS) and by the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), collectively referred to as "IFRS" and pursuant to art. 9 of Italian Legislative Decree no. 38/05.
Acea SpA adopts the international accounting standards, International Financial Reporting Standards (IFRS), with effect from the financial year 2006, with transition date to the IFRS at 1 January 2005. The latest Financial Statements drafted according to the Italian accounting standards refer to the financial year ended on 31 December 2005.

BASIS OF PRESENTATION

The Financial Statements for the year ended on 31 December 2020 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of cash flows and the Statement of changes in equity – all drafted according to the provisions of IAS 1 – as well as the Explanatory and Supplementary Notes, drafted in accordance with applicable IAS/IFRS provisions.
It is specified that the Income Statement is classified based on the nature of the costs, the Balance Sheet and Financial Position based on the liquidity criterion with the subdivision of items between current and non-current, while the cash flow statement is presented using the indirect method.
The Financial Statements for the year ended on 31 December 2020 have been drafted in Euro and all amounts are rounded to thousands of Euro unless otherwise indicated.

ALTERNATIVE PERFORMANCE INDICATORS

On 5 October 2015, ESMA (European Securities and Markets Authority) published its guidelines (ESMA/2015/1415) on criteria for the presentation of alternative performance indicators which replace, as of 3 July 2016, CESR/05-178b recommendations. This orientation was acknowledged in our system in CONSOB Communication no. 0092543 dated 3 December 2015. These guidelines were transposed into our system with CONSOB Communication no. 0092543 dated 3 December 2015. The content and meaning of the non-GAAP measures of performance and other alternative performance indicators used in these Financial Statements are illustrated below:

- the gross operating margin (or EBITDA) represents an indicator of operating performance and includes, from 1 January 2014; the gross operating margin is calculated by adding to the Operating results the item "Depreciation, provisions and write-downs" as the main non-cash items;
- the net financial position is an indicator of the financial structure and is obtained from the sum of non-current payables and financial liabilities net of non-current financial assets (financial receivables and securities other than equity investments), current financial payables and other current net current liabilities current financial assets and cash and cash equivalents;
- net invested capital is the sum of "Current assets", "Non-current assets" and assets and liabilities held for sale, less "Current liabilities" and "Non-current liabilities", excluding items taken into account when calculating the net financial position;
- net working capital is the sum of current receivables, inventories, the net balance of other current assets and liabilities and current payables, excluding the items considered in calculating the net financial position.

USE OF ESTIMATES AND ASSUMPTIONS

Drafting of the Financial Statements, in application of the IFRS, requires the making of estimates and assumptions that affect the values of revenues, costs, assets and liabilities in the Financial Statements and information on potential assets and liabilities reference date. The main sources of uncertainty that could have an impact on the evaluation processes are also considered in making these estimates. The actual amounts may differ from such estimates. The estimates were used in the assessment of the impairment test, to determine some sales revenues, for provisions for risks and charges, the allowance for doubtful accounts and other provisions for depreciation, amortisation, valuations of derivative instruments, employee benefits. and taxes. The estimates and assumptions are reviewed periodically and the effects of each change are immediately recorded in the profit and loss account.
The estimates also took into account assumptions based on the parameters and market and regulatory information available at the time the Financial Statements were drafted. Current facts and circumstances influencing the assumptions on future development and events may change due to the effect, for example, of changes in market trends or the applicable regulations that are beyond the control of the Company. These changes in assumptions are also reflected in the Financial Statements when they occur.
In addition, it should be noted that certain estimation processes, particularly the more complex such as the calculation of any impairment of non-current assets, are generally performed in full only when drafting the annual Financial Statements, unless there are signs of impairment that call for immediate impairment testing.
For more information on the methods in question, please refer to the following paragraphs.

RISKS CONNECTED TO THE CORONAVIRUS (COVID-19) EMERGENCY

Please see the Report on Operations for a description on the main impacts the Covid-19 emergency had on the Group's activities. Note that at present these impacts have not had significant effects on the Income Statement, nor has it created uncertainties that

would reflect negatively on the presumption of the business as a going concern.
Finally, in the *Impairment Test* section below, the execution of the impairment test pursuant to IAS 36 is outlined, done so to take into account the global pandemic, which did not indicate a need to carry out any write-downs on the carrying values of tangible and intangible assets.

Relative to the recoverability of receivables, no particular risks were identified.

ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The most significant principles and criteria are explained below.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and discontinued operations groups) classified as held for sale are valued at the lower of their previous carrying amount and market value less costs to sell.
Non-current assets (and disposal groups) are classified as held for sale when it is expected that their carrying amount will be recovered through a sale transaction rather than their use in the company's operations. This condition is met only when the sale is highly probable, the asset (or Group of assets) is available for immediate sale in its current conditions and the Management has made a commitment to the sale, which must take place within twelve months from the date of classification in this item.

EXCHANGE DIFFERENCES

The functional and presentation currency adopted by Acea SpA and by subsidiaries in Europe is the Euro (€). Transactions in foreign currencies are initially recognised at the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies were reconverted into the functional currency at the exchange rate prevailing at the balance sheet date. All exchange differences are recorded in the Income Statement of the Financial Statements, with the exception of differences deriving from loans in foreign currency that have been entered into to hedge a net investment in a foreign company. These differences are recognised directly in equity until the net investment is disposed of and at that time any subsequent exchange rate difference is recognised in the Income Statement. The tax effect and receivables attributable to the exchange differences deriving from this type of loan are also attributed directly to equity. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate in force on the date of initial recognition of the transaction. Non-monetary items recorded at fair value are converted using the exchange rate on the date of calculation of this value.
The currency used by Latin American subsidiaries is the official currency of their country. On the balance sheet date, the assets and liabilities of these companies are converted into the presentation currency adopted by Acea SpA using the exchange rate in effect on the balance sheet date, and their Income Statement is converted using the average exchange rate for the year or the exchange rates prevailing on the date of execution of the relevant transactions. Differences in translation emerging from the different exchange rates used for the Income Statement with respect to the balance sheet are recorded directly in equity and are shown separately in one of its specific reserves. At the time of disposal of a foreign economic entity, the accumulated foreign exchange differences recorded in the Shareholders' equity in a specific reserve will be recognised in the Income Statement.

REVENUE RECOGNITION

Revenues are recognised to the extent that it is possible to reliably determine their value and it is probable that the relevant economic benefits will be achieved by Acea SpA and are valued at the fair value of the consideration received or receivable depending on the type of transaction. Revenues are recognised on the basis of specific criteria set out below:

Sale of goods
Revenues are recognised when the significant risks and rewards of ownership of the assets are transferred to the purchaser.

Provision of services
Revenues are recorded with reference to the stage of completion of the activities on the basis of the same criteria as those for contract work in progress. In the event that the value of revenues cannot be reliably determined, the latter are recognised up to the amount of the costs incurred which are deemed to be recovered.

FINANCIAL INCOME

Income is recognised on the basis of interest accrued on the net value of the relevant financial assets using the effective interest rate (rate that exactly discounts estimated future cash flows at the net carrying amount of the asset). Interest is recorded as an increase in the financial assets shown in the Financial Statements.

DIVIDENDS

These are recognised when the unconditional right of Shareholders is established to receive payment. They are classified in the Income Statement under the item investment income.

CONTRIBUTIONS

Contributions obtained for investments in plants, both by public bodies and by private third parties, are recognised at fair value when there is a reasonable certainty that they will be received and that expected conditions will be met. Contributions received for

specific plants whose value is recorded under fixed assets are recorded among other non-current liabilities and progressively released to the Income Statement in constant instalments over a period equal to the useful life of the reference asset.
Operating grants (granted for the purpose of providing immediate financial assistance to the company or as compensation for expenses and losses incurred in a previous year) are recognised in full in the Income Statement when the conditions for recognition are met.

CONSTRUCTION CONTRACTS IN PROGRESS

Construction contracts in progress are assessed on the basis of the contractual fees accrued with reasonable certainty, according to the percentage of completion criterion (the so-called "cost to cost"), so as to attribute the revenues and the economic result of the contract to the individual financial years in proportion to the progress of the works. The positive or negative difference between the value of the contracts and the advances received is recorded respectively in the assets or in the liabilities side of the balance sheet.
Contract revenues, in addition to contractual fees, include variants, price revisions and recognition of incentives to the extent that they are likely to represent actual revenues and if these can be determined reliably. Ascertained losses are recognised regardless of the progress of orders.

COSTS RELATED TO BORROWING

Costs related to the assumption of loans directly attributable to the acquisition, construction or production of assets that necessarily require a significant period of time before being ready for use or sale, are included in the cost of these assets, up until where they are ready for use or sale. The proceeds from the temporary liquidity investment obtained from the aforementioned loans are deducted from capitalised interest. All other charges of this nature are recognised in the Income Statement when they are incurred.

EMPLOYEE BENEFITS

Benefits guaranteed to employees disbursed at the time of or after termination of the employment relationship through defined benefit and defined contribution programmes (including: severance indemnity – TFR, extra months, tariff subsidies, as described in the notes) or other long-term benefits are recognised in the period during which the rights to these accrue. The valuation of the liability is carried out by independent actuaries. These funds and benefits are not funded. The cost of benefits envisaged by the various plans is determined separately for each plan using the actuarial valuation method of the unit credit projection, making the actuarial valuations at the end of each year.
Profits and losses deriving from the actuarial calculation are recorded in the statement of comprehensive income, then in a specific Shareholders' equity Reserve, and are not subsequently charged to the Income Statement.
Expenses deriving from retirement incentives for employees who took part in the "*Isopensione*" Plan and which meet the criteria defined in the Group's Plan were recognised in a specific Provision.
The Group takes the place of the reference national insurance institutions, in particular, the Provision was created to pay pension instalments due to early pensioners, as well as to pay presumed contributions during the period needed to achieve the right to the relative social security payments through the national insurance institutions.

TAXES

Income taxes for the year represent the sum of current taxes (as per tax consolidation) and deferred taxes.

Current taxes are based on the taxable results for the year. Taxable income differs from the results reported in the Income Statement because it excludes positive and negative components that will be taxable or deductible in other financial years and also excludes items that will never be taxable or deductible. The liability for current taxes is calculated using the rates in force or in fact in force at the balance sheet date as well as taxation instruments allowed by tax legislation (national tax consolidation, taxation for transparency).

Deferred taxes are the taxes that are expected to be paid or recovered on temporary differences between the book value of assets and liabilities in the Financial Statements and the corresponding tax value used in the calculation of the taxable income, recorded according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent where it is probable that there will be future taxable results that allow the use of deductible temporary differences.
The carrying amount of deferred tax assets is revised at each balance sheet date and reduced to the extent that, based on the plans approved by the Board of Directors, the existence of sufficient taxable income is not considered likely to allow all or partly the recovery of these assets.
Deferred taxes are calculated based on the tax rate that is expected to be in effect at the time the asset is realised or the liability is relieved. Deferred taxes are charged directly to the Income Statement, with the exception of those relating to items recognised directly in equity, in which case the relevant deferred taxes are also recognised in equity.

TANGIBLE ASSETS

Tangible assets are recognised at cost, including ancillary costs directly attributable and necessary for putting the asset into service for the use for which it was purchased, net of the relevant accumulated depreciation and any accumulated impairment losses.
The cost includes the costs of the dismantling and removal of the assets and the costs of reclamation of the site on which the tangible assets stand, if they comply with the provisions of IAS 37. Assets composed of components of a significant amount with a different useful life.
The costs for improvements, modernisation and transformation that increase the value of tangible assets are recognised as assets when it is probable that they will increase the expected future economic benefits of the asset.
Land, whether free of construction or annexed to civil and industrial buildings, is not depreciated as it has an unlimited useful life.
Depreciation is calculated on a straight-line basis over the estimated useful life of the asset by applying the following percentage rates

DESCRIPTION	ECONOMIC-TECHNICAL DEPRECIATION RATE		
	Min.		Max
Instrumental systems and equipment	1.25%		6.67%
Non-instrumental systems and equipment		4%	
Instrumental industrial and commercial equipment	2.5%		6.67%
Non-instrumental industrial and commercial equipment		6.67%	
Other capital goods		12.50%	
Other non-capital goods	6.67%		19%
Instrumental vehicles		8.33%	
Non-instrumental vehicles		16.67%	

Systems and equipment under construction for production purposes are recorded at cost, net of write-downs for losses in value. The cost includes any professional fees and, for some assets, financial charges capitalised in accordance with the Company's accounting policies. The depreciation of these assets, as for all other assets, begins when the assets are ready for use. For some types of complex goods for which long-lasting functional tests are required, the suitability for use is attested by the positive passing of these tests.
Tangible assets are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of individual tangible assets or, possibly, at the level of the cash-generating unit.
Assets held as financial leases are depreciated in relation to their estimated useful life as for assets held as property or, if lower, based on the expiry dates of leases.
Profits and losses deriving from the sale or disposal of assets are determined as the difference between the sale revenue and the net book value of the asset and are recorded in the Income Statement for the year.

REAL ESTATE INVESTMENTS

Real estate investments, represented by properties held for rental and/or capital appreciation, are recorded at purchase cost including negotiation costs net of the relevant accumulated depreciation and any impairment losses.
Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The percentages applied are between a minimum of 1.67% and a maximum of 11.11%.
Real estate investments are eliminated from the Financial Statements when they are sold or when the investment property is permanently unusable and no future economic benefits are expected from its possible sale.
The sale of real estate which results in the leaseback of the assets is recorded on the basis of the substantial nature of the transaction considered as a whole. In this regard, reference is made to what has been explained regarding Leases.
Any profit or loss deriving from the elimination of an investment property is recorded in the Income Statement in the year in which the elimination takes place.

INTANGIBLE ASSETS

Purchases separated or deriving from business combinations

Intangible assets acquired separately are capitalised at cost, while those acquired through business combinations are capitalised at the fair value defined on the purchase date. After the first entry into the category of intangible assets, the cost criterion applies. The useful life of intangible assets can be qualified as definite or indefinite. Intangible assets with an indefinite useful life are subjected annually to a recoverability analysis in order to detect any loss in value: this analysis is carried out at the level of the individual intangible asset or, possibly, at the level of the cash-generating unit.
The useful life is reviewed annually and any changes, where possible, are made by means of analytical tables.

Gains or losses deriving from the disposal of an intangible asset are determined as the difference between the disposal value and the carrying amount of the asset and are recorded in the Income Statement at the time of disposal.

RESEARCH AND DEVELOPMENT COSTS

Research costs are allocated to the Income Statement when incurred. Development costs incurred in relation to a given project are capitalised when their future recovery is deemed reasonably certain. Following initial recognition of development costs, these are valued using the cost criterion that can be decreased by any accumulated depreciation or loss.
Any capitalised development costs are depreciated for the entire period in which expected future revenues will be shown in respect of the project itself. The carrying value of development costs is reviewed annually for the performance of an adequacy analysis for the purpose of detecting any impairment losses when the asset is not yet in use, or more closely when an indicator during the period exercise may raise doubts about the recoverability of the carrying amount.

TRADEMARKS AND PATENTS

These are initially recognised at purchase cost and depreciated on a straight-line basis based on their useful life.
With regard to depreciation rates, please note that:

- development costs are depreciated over a period of five years in relation to the residual possibility of use;
- costs for intellectual property rights are amortized on the basis of a presumed period of three years.

RIGHT OF USE

This item contains assets relative to application of international accounting standard IFRS 16, issued in January 2016 and in effect as of 1 January 2019, which replaced the previous standard on leasing, IAS 17 and its interpretations, identifying criteria for recognition, measurement and presentation, as well as the information to be provided with reference to leasing contracts. IFRS 16 marks

the end of the distinction in terms of classification and accounting treatment of operating leases (with off-balance sheet disclosures) and finance leases (recognised in the Financial Statements).
The right to use the leased asset ("Right of use") and the commitment made result from financial data in the Financial Statements (IFRS 16 applies to all transactions involving a right of use, regardless of the contractual form, i.e. lease, rental or hire purchase). The standard introduces the concept of control to the definition used, in particular, to determine whether a contract is a lease. IFRS 16 requires a lessee to verify whether it has the right to control the use of a given asset for a specified period of time.
There is no accounting symmetry with the lessor, which continues to apply a separate accounting treatment depending on whether the contract is an operating lease or a finance lease (on the basis of current guidelines). On the basis of this new model, the lessee shall recognise:

a. in the balance sheet, the assets and liabilities for all leases that have a term exceeding 12 months, unless the underlying asset has a modest value;
b. in profit or loss, depreciation of the leased assets separately from interest on the related liabilities.

For the first-time adoption of the principle, the transition approach used by the Acea Group was the modified retrospective approach, and therefore the contracts whose leases – including renewals – will end within 12 months from the date of first application will not be included. The Group has also used the possibility envisaged by the principle of not accounting separately for the non-lease component of mixed contracts, therefore choosing to treat these contracts as a lease.

For payable discounting purposes, the Group has used an IBR calculated based on a risk-free rate with a maturity equal to the residual duration for each contract plus the credit spread assigned to Acea SpA by Moody's. Finally, it should be noted that there are no significant differences between the commitments arising from lease contracts discounted at the same rate and the value recognised in accordance with IFRS 16.

IMPAIRMENT

Goodwill and other assets with an indefinite useful life are not amortised on a straight-line basis, but are tested for impairment at least once a year by the individual Cash Generating Units (CGUs) or groups of CGUs to which assets with an indefinite useful life can be reasonably allocated, in accordance with Group procedures. The Company analyses the CGUs of the Group identified using its procedure, based on the impairment procedure.
The test consists of a comparison between the carrying amount of the asset and its estimated value in use – VIU. Given the nature of the activities carried out by the Acea Group, the method of determining the "VIU" is carried out by discounting the expected cash flows from use and, if significant and reasonably determinable, from disposal at the end of the useful life. However, where there is evidence of a reliable fair value (price traded in an active market, comparable transactions, etc.) the Group assesses the adoption of this value for impairment testing.
Cash flows are determined on the basis of the best information available at the time of the estimate, which can be inferred through the combined use of the financial method and sensitivity analyses.
The determination of the "VIU" is carried out using the financial method (Discounted Cash Flow – DCF) which considers the ability to produce cash flows as the fundamental element for the valuation of the entity of reference. The application of the financial method to determine the value in use of a CGU involves estimating the present value of net operating cash flows for tax purposes.
If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative book value, it is reduced to the lower recoverable value. An impairment loss is immediately recognised in the Income Statement, unless the asset is represented by land or buildings other than real estate investments recorded at revalued values, in which case the loss is recognised in the respective revaluation reserve.
When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the Income Statement, unless the asset is carried at a revalued amount, in which case the reversal is recognised in the revaluation reserve.
Where an impairment charge is recognised in the Income Statement, it is included among amortisation, depreciation and impairment charges.

EQUITY INVESTMENTS

Investments in subsidiaries and associates are recorded in the balance sheet at the adjusted cost of any impairment losses on the individual equity investments. The cost of acquisition or subscription, for those relating to contributions, corresponds to the value determined by the experts in the estimate pursuant to article 2343 of the Italian Civil Code.
The excess of the acquisition cost compared to the share of the investee's Shareholders' equity expressed at current values is recognized as goodwill. Goodwill is included in the carrying amount of the investment and is subject to impairment tests and possibly written down. Losses in value are not subsequently restored if the reasons for such devaluation cease to exist.
Losses on equity investments relating to the amount exceeding the amount of Shareholders' equity are classified in the provision for risks and charges even if there is a credit exposure and until the eventual formal waiver of the receivable. Charges for settlement of equity investments are recognised through the valuation of the investments themselves regardless of the allocation of charges in the Financial Statements of investee companies.
Investments in other companies, constituting non-current financial assets and not destined for trading activities, are measured at fair value if they can be determined: in this case, gains and losses deriving from the fair value measurement are booked directly to equity until the moment of the sale when all the accumulated profits and losses are charged to the profit and loss account for the period.
Investments in other companies for which fair value is not available are recorded at cost, written down for any permanent losses in value.
Dividends are recognised in the Income Statement when the right to receive payment is established only if they derive from the distribution of profits subsequent to the acquisition of the investee company. If, however, they derive from the distribution of reserves of the investee prior to the acquisition, these dividends are recorded as a reduction in the cost of the investment itself.

TREASURY SHARES

The purchase cost of treasury shares is recognised as a decrease in equity. The effects of any subsequent transactions on these shares are also recognised directly in equity.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised when Acea SpA becomes part of the instrument's contractual clauses.

TRADE RECEIVABLES AND OTHER ACTIVITIES

Trade receivables, whose expiry falls within normal commercial terms, are recorded at their nominal value reduced by an appropriate write-down to reflect the estimate of the loss on receivables.
The estimate of the amounts considered non-collectable is estimated based on the provisions of IFRS 9, or, through the application of the expected credit loss model for the evaluation of the recoverability of the financial assets based on a predictive approach, based on the prediction of the counterparty's default (so-called "probability of default") and of the ability to recover if the default event occurs (so-called "loss given default").
Receivables from customers refer to the amount invoiced which, as at the date of this document, is still to be collected as well as the portion of receivables for revenues for the period relating to invoices to be issued subsequently.
Financial assets related to agreements for services under concession
With reference to the application of IFRIC 12 to the Public Lighting service concession, Acea has adopted the Financial Asset Model, recognising a financial asset to the extent that it has an unconditional contractual right to receive cash flows.

FINANCIAL ASSETS

Financial assets are recognised and reversed from the Financial Statements on the basis of the trading date and are initially valued at cost including charges directly connected with the acquisition.
At the subsequent balance sheet dates, the financial assets that the Group intends and has the ability to hold until maturity (financial assets held to maturity) are recorded at depreciated cost using the effective interest rate method, net of write-downs. made to reflect losses in value.
Financial assets other than those held to maturity are classified as held for trading or available for sale, and are valued at fair value at the end of each period.
When financial assets are **held for trading**, gains and losses deriving from changes in fair value are recognized in the profit and loss account for the period. For **available-for-sale financial** assets, the gains and losses deriving from changes in fair value are recognised directly in a separate item of equity until they are sold or impaired; at that time, the total gains or losses previously recognised in equity are charged to the profit and loss account for the period. The total loss amount must be equal to the difference between the acquisition cost and the current fair value.
In the case of securities widely traded on regulated markets (assets), the fair value is determined with reference to the stock market price listing (bid price) at the end of trading on the closing date of the financial year. For investments for which a market price is not available, the fair value is determined based on the current market value of another substantially equal financial instrument or is calculated based on the expected future cash flows of the net assets underlying the investment.

Purchases and sales of financial assets, which involve delivery within a period of time generally defined by the regulations and conventions of the market in which the exchange takes place, are recorded on the trading date, i.e. on the date on which the Group has assumed the commitment to purchase/sell these assets.
The initial recognition of non-derivative financial assets, not listed on active markets and having fixed or determinable payment flows, is carried at fair value.
Subsequent to initial recognition they are valued at depreciated cost based on the effective interest rate method.
At each balance sheet date, the Group checks whether a financial asset or Group of financial assets has suffered an impairment. A financial asset or Group of financial assets is considered to be subject to impairment if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and which have an impact on the estimated reliable future cash flows. The evidence of impairment derives from the presence of indicators such as financial difficulties, the inability to meet obligations, insolvency in the payment of important payments, the probability that the debtor fails or is subject to another form of reorganisation and the presence of objective data that indicates a measurable decrease in estimated future cash flows.

CASH AND CASH EQUIVALENTS

This item includes cash and bank current accounts and deposits repayable on demand and other highly liquid short-term financial investments, which are readily convertible into cash and are subject to a non-significant risk of changes in value.

FINANCIAL PAYABLES AND OTHER LIABILITIES

Financial liabilities

Financial liabilities are measured using the depreciated cost criterion. In particular, the costs incurred for the acquisition of loans (transaction costs) and any issue premium and discount are directly adjusted by the nominal value of the loan.
Consequently, net financial charges are restated on the basis of the effective interest rate method.

FINANCIAL DERIVATIVE INSTRUMENTS

Derivative instruments are initially recognised at cost and adjusted to the fair value on subsequent closing dates. They are designated as hedging instruments if a relationship between the derivative and the subject of the formally documented hedge exists and the effectiveness of the hedge, verified periodically, is high.
When hedging derivatives cover the risk of changes in fair value being hedged (fair value hedge), derivatives are measured at fair value and the relevant effects recorded in the profit and loss account; the adjustment to fair value of the assets or liabilities subject to hedge accounting is also consistently recorded in the profit and loss account.
When hedged is the risk of changes in the cash flows of hedged items (cash flow hedge), the change in fair value for the party qualified as effective are recognised in equity, while the ineffective portion is recognised directly in the profit and loss account.

TRADE PAYABLES

Trade payables, whose expiry falls within normal commercial terms, are recognised at their nominal value.

ELIMINATION OF FINANCIAL INSTRUMENTS

Financial assets are eliminated from the Financial Statements

when Acea SpA loses all the risks and the right to the perception of the cash flows connected to the financial activities.
A financial liability (or part of a financial liability) is eliminated from the balance sheet when, and only when, it is extinguished, or in other words, when the obligation specified in the contract is fulfilled or cancelled or has expired.
If a previously issued debt instrument is repurchased, the debt is extinguished, even if it is intended to resell it in the near future. The difference between the carrying amount and the payment paid is recorded in the profit and loss account.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are made when Acea has to meet a current obligation (legal or implicit) deriving from a past event, where it is probable that an outlay of resources will be required to satisfy the obligation and a reliable estimate can be made on the amount of the obligation.

The provisions are allocated based on the Management's best estimate for the costs required to fulfil the obligation at the balance sheet date, and if the effect is significant.
When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is determined by discounting the expected future cash flows at the average rate of the company's debt taking into account the risks associated with the obligation; the increase in the provision associated with the passage of time is recognised in the Income Statement under the item "Financial income/(charges)".

ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS APPLIED AS OF 1 JANUARY 2020

"Amendments to IFRS 3 – Business Combination"
Issued on 22 October 2018 to resolve interpretative difficulties that arise when an entity needs to determine whether it has acquired a business or a Group of businesses. The amendments are effective for business combinations for which the acquisition date is after 1 January 2020.

"Amendments to IFRS 9, IAS 39 and IFRS 7: *Interest Rate Benchmark Reform*"
Issued on 26 September 2019, it explains the changes contained in the document "*Reform of the reference indices for the determination of interest rates*" aimed at providing temporary exemptions from the application of certain provisions on hedge accounting for all hedging relationships directly impacted by the reform of benchmark interest rates. Amendments are effective from the financial years beginning on or after 1 January 2020.

"Amendments to IAS 1 and IAS 8"
Issued on 31 October 2018 to clarify the definition of "material" and in order to align the definition used in the Conceptual Framework and in the standards themselves. The amendments are effective for periods beginning on or after 1 January 2020. Earlier application is permitted.

"Amendments to References to the Conceptual Framework in IFRS Standards"
Issued on 29 March 2018, it contains amendments to international accounting standards, essentially of a technical and editorial nature. Amendments are effective from the financial years beginning on or after 1 January 2020.

"Amendment to IFRS 16 Leases Covid-19-Related Rent Concessions"
Issued on 28 May 2020, it introduces a practical arrangement aimed at allowing the possibility for the lessee not to consider as amendments to the lease any concessions recognised as a result of Covid-19 (e.g. suspension of rent payments).
The lessee may therefore exempt itself from revising numerous contracts and need not redefine the respective lease liabilities by means of a new discount rate since it can treat such changes in a manner that does not involve a lease modification. This expedient, applicable to lessees and not lessors, is effective as of 1 June 2020 and is limited to changes to rent made through 30 June 2021, intended to mitigate the effects of Covid-19.

"Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform"
Issued on 27 August 2020, this introduces a reform for benchmarks used to determine interest rates in order to take into account the consequences of the financial disclosure reform (Regulation EU 2020/34 and the recommendations contained in the Council for Financial Stability Report of July 2014, "*Reforming Major Interest Rate Benchmarks*") so that companies can continue to comply with provisions, presuming that the existing interest rate benchmarks have not been changed following the reform of interbank rates. Companies will apply these changes at the latest starting from the first day of the first financial year beginning on 1 January 2020 or after.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AFTER CLOSURE OF THE YEAR AND NOT ADOPTED IN ADVANCE BY THE GROUP

"IFRS 17 Insurance Contracts"

On 18 May 2017, the IASB issued IFRS 17 "Insurance Contracts" which defines the accounting of insurance contracts issued and reinsurance contracts held. The provisions of IFRS 17, which supersede those currently envisaged in IFRS 4 "Insurance Contracts", are effective from the financial years beginning on or after 1 January 2021.

"Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9"

On 28 May 2020, the IASB published an extension of the temporary exemption on application of IFRS 9, bringing the date to 1 January 2023, offering the possibility of aligning measurement criteria for financial instruments to the new accounting standard IFRS 17 to measure and recognise insurance contracts. The extension is effective for financial years starting on or after 1 January 2021.

"Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current"

Issued on 23 January 2020, it provides clarifications on the classification of liabilities as current or non-current. Amendments to IAS 1 are effective from the financial years beginning on or after 1 January 2023.

"Amendment to IFRS 3 Business Combinations"

Issued on 24 June 2020, it updates the reference in IFRS 3 to the Conceptual Framework in the revised version, without entailing changes to the provisions of the standard.

"Amendment to IAS 16 Property, Plant and Equipment"

Issued on 24 June 2020, it does not allow deducting the amount received from the sale of goods produced before the asset was ready for use from the cost of the fixed asset. These sales revenues and related costs are recognised in the Income Statement.
Amendments to IAS 16 are effective from the financial years beginning on or after 1 January 2022.

"Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets"

Issued on 24 June 2020, it clarifies which cost items must be considered to assess whether a contract will result in a loss.

"Annual Improvements 2018-2020"

Issued on 24 June 2020, it includes amendments to:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards", where a subsidiary that applies paragraph D16 of IFRS 1 is allowed to recognise cumulative conversion differences using the amounts recognised by its parent at the date of transfer of the Parent Company;
- IFRS 9 "Financial Instruments", which provides clarification on which fees to include in the ten per cent test in section B3.3.6 when assessing whether to eliminate a financial liability;
- IAS 41 "Agriculture", where, in order to ensure consistency with the requirements of IFRS 13, the paragraph under which entities did not include tax cash flows in the measurement of the fair value of a biological asset using the present value technique is deleted;
- the "llustrative Examples" accompanying IFRS 16 "Leases", eliminating "Illustrative Example 13" in order to avoid confusion regarding the treatment of lease incentives due to how the incentives were illustrated in that example.

INCOME STATEMENT

Ref. Note	INCOME STATEMENT	2020	Of which related party transactions	2019	Of which related party transactions	Change
1	Revenue from sales and services	152,204,994	151,973,876	152,318,354	152,207,467	(113,359)
2	Other revenue and income	12,589,299	8,457,567	30,915,657	9,318,616	(18,326,358)
	Net revenues	**164,794,294**	**160,431,443**	**183,234,011**	**161,526,082**	**(18,439,717)**
3	Personnel costs	61,556,837	0	60,295,960	0	1,260,877
4	Costs of materials and overheads	142,199,229	50,313,262	132,978,683	59,810,030	9,220,546
	Operating costs	**203,756,066**	**50,313,262**	**193,274,643**	**59,810,030**	**10,481,423**
	EBITDA	**(38,961,772)**	**110,118,181**	**(10,040,633)**	**101,716,052**	**(28,921,140)**
5	Net write-downs (write-backs) of trade receivables	(299,976)	0	(2,368,489)	0	2,068,513
6	Depreciation, amortisation and provisions	23,583,937	0	22,467,993	0	1,115,945
	Operating profit/(loss)	**(62,245,733)**	**110,118,181**	**(30,140,137)**	**101,716,052**	**(32,105,596)**
7	Financial income	99,268,436	98,623,155	140,801,939	139,096,589	(41,533,503)
8	Financial costs	(66,107,846)	(3,614,502)	(72,312,419)	(58,396)	6,204,574
9	Income/(costs) from equity investments	204,179,429	204,179,429	181,633,668	181,633,668	22,545,762
	Profit/(loss) before tax	**175,094,287**	**409,306,263**	**219,983,051**	**422,387,913**	**(44,888,764)**
10	Income taxes	(2,666,595)	(96,560,113)	11,495,039	(73,944,831)	(14,161,634)
	Net result of continuing operations	**177,760,882**	**505,866,376**	**208,488,012**	**496,332,744**	**(30,727,130)**

Amounts in €

STATEMENT OF COMPREHENSIVE INCOME

€ thousand	2020	2019	Change
Net income for the period	**177,761**	**208,488**	**(30,727)**
Reserve for exchange differences	5,740	(5,299)	11,040
Tax reserve for exchange differences	(1,378)	1,272	(2,650)
Gains/losses from exchange rate difference	**4,363**	**(4,028)**	**8,390**
Effective portion of gains/(losses) on hedging instruments ("cash flow hedges")	(4,191)	4,975	(9,165)
Tax effect of other gains/(losses) on hedging instruments ("cash flow hedges")	1,006	(1,194)	2,200
Profit/loss from the effective portion on hedging instruments net of tax effect	**(3,185)**	**3,781**	**(6,965)**
Actuarial gains/(losses) on employee benefits recognised in equity	2,335	(1,812)	4,147
Tax effect on the other actuarial profit/(loss) on staff benefit plans	(690)	(756)	66
Actuarial profit/(loss) on defined benefit pension plans net of tax effect	**1,644**	**(2,568)**	**4,213**
Total components of other comprehensive income, net of tax effect	**2,822**	**(2,815)**	**5,637**
Total comprehensive income/loss	**180,583**	**205,673**	**(25,090)**

All components are reclassifiable in the Income Statement.

STATEMENT OF FINANCIAL POSITION

Ref. Note	ASSETS	2020	Of which related party transactions	2019	Of which related party transactions	Change
11	Tangible fixed assets	102,010,291	0	98,885,234	0	3,125,058
12	Real estate investments	2,372,330	0	2,430,688	0	(58,358)
13	Intangible fixed assets	40,235,472	0	24,283,493	0	15,951,979
14	Right of use	17,626,323	0	15,745,805	0	1,880,519
15	Investments in subsidiaries and affiliate companies	1,839,964,043	0	1,813,914,461	0	26,049,583
16	Other equity investments	2,350,061	0	2,352,061	0	(2,000)
17	Deferred tax assets	17,898,220	0	18,636,433	0	(738,213)
18	Financial assets	238,441,593	197,480,304	226,670,645	226,545,145	11,770,948
	NON-CURRENT ASSETS	**2,260,898,334**	**197,480,304**	**2,202,918,820**	**226,545,145**	**57,979,515**
19.a	Trade receivables	136,551,598	135,886,284	98,605,450	97,895,826	37,946,148
19.b	Other current assets	56,457,645	32,220,901	40,577,200	10,128,220	15,880,446
19.c	Current tax assets	0	0	2,624,397	0	(2,624,397)
19.d	Current financial assets	3,214,003,570	2,984,036,079	2,686,541,697	2,539,759,149	527,461,873
19.e	Cash and cash equivalents	418,505,229	0	688,144,677	0	(269,639,448)
19	**CURRENT ASSETS**	**3,825,518,042**	**3,152,143,264**	**3,516,493,420**	**2,647,783,195**	**309,024,622**
	TOTAL ASSETS	6,086,416,376	3,349,623,569	5,719,412,239	2,874,328,340	367,004,137

Amounts in €

Ref. Note	LIABILITIES	31/12/2020	Of which related party transactions	31/12/2019	Of which related party transactions	Change
	Shareholders' equity					
20.a	Share capital	1,098,898,884	0	1,098,898,884	0	0
20.b	Legal reserve	129,760,832	0	119,336,432	0	10,424,401
20.c	Other reserves	77,979,641	0	75,157,426	0	2,822,215
	Retained earnings/(losses)	159,206,999	0	126,930,755	0	32,276,244
	Profit (loss) for the year	177,760,882	0	208,488,012	0	(30,727,130)
20	**Total Equity**	**1,643,607,238**	**0**	**1,628,811,508**	**0**	**14,795,730**
21	Employee severance indemnity and other defined-benefit plans	21,500,228	0	23,322,523	0	(1,822,294)
22	Provision for risks and charges	16,202,936	0	15,881,547	0	321,389
23	Borrowings and financial liabilities	3,710,654,961	0	3,170,894,850	0	539,760,111
	NON-CURRENT LIABILITIES	**3,748,358,126**	**0**	**3,210,098,920**	**0**	**538,259,205**
24.a	Financial payables	429,492,050	255,328,218	662,536,178	164,465,312	(233,044,129)
24.b	Payables to suppliers	224,036,408	106,952,791	182,192,468	927,345	41,843,940
24.c	Tax payables	13,969,410	0	813,983	0	13,155,427
24.d	Other current liabilities	26,953,145	3,272,632	34,959,182	11,469,122	(8,006,037)
24	**CURRENT LIABILITIES**	**694,451,013**	**365,553,641**	**880,501,811**	**176,861,779**	**(186,050,798)**
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,086,416,376	365,553,641	5,719,412,239	176,861,779	367,004,137

Amounts in €

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2019

€ thousand	Share capital	Legal reserve	Demerged capital gains reserve	Reserve for exchange differences	Valuation reserve for financial instruments	Reserve for actuarial gains or losses	Other miscellaneous reserves	Profit (loss) accumulated	Profit (loss) for the year	Total Shareholders' equity
Balance as at 31 December 2018	1,098,899	111,948	102,567	4,718	(20,658)	(9,034)	379	137,452	147,776	**1,574,048**
Balance as at 1 January 2019	**1,098,899**	**111,948**	**102,567**	**4,718**	**(20,658)**	**(9,034)**	**379**	**137,452**	**147,776**	**1,574,048**
Income Statement profit	-	-	-	-	-	-	-	-	208,488	**208,488**
Other comprehensive income (loss)	-	-	-	(4,028)	3,781	(2,568)	-	-	-	**(2,815)**
Total comprehensive income (loss)	**-**	**-**	**-**	**(4,028)**	**3,781**	**(2,568)**	**-**	**-**	**208,488**	**205,673**
Allocation of result for 2018	-	7,389	-	-	-	-	-	140,387	(147,776)	**-**
Distribution of dividends	-	-	-	-	-	-	-	(147,656)	-	**(147,656)**
Balance as at 31 December 2019	**1,098,899**	**119,336**	**102,567**	**691**	**(16,877)**	**(11,602)**	**379**	**126,931**	**208,488**	**1,628,812**

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2020

€ thousand	Share capital	Legal reserve	Demerged capital gains reserve	Reserve for exchange differences	Valuation reserve for financial instruments	Reserve for actuarial gains or losses	Other miscellaneous reserves	Profit (loss) accumulated	Profit (loss) for the year	Total Shareholders' equity
Balance as at 31 December 2019	1,098,899	119,336	102,567	691	(16,877)	(11,602)	379	126,931	208,488	**1,628,812**
Balance as at 1 January 2020	**1,098,899**	**119,336**	**102,567**	**691**	**(16,877)**	**(11,602)**	**379**	**126,931**	**208,488**	**1,628,812**
Income Statement profit	-	-	-	-	-	-	-	-	177,761	**177,761**
Other comprehensive income (loss)	-	-	-	4,363	(3,185)	1,644	-	-	-	**2,822**
Total comprehensive income (loss)	**-**	**-**	**-**	**4,363**	**(3,185)**	**1,644**	**-**	**-**	**177,761**	**180,583**
Allocation of result for 2019	-	10,424	-	-	-	-	-	198,064	(208,488)	**-**
Distribution of dividends	-	-	-	-	-	-	-	(165,717)	-	**(165,717)**
Balance as at 31 December 2020	**1,098,899**	**129,761**	**102,567**	**5,053**	**(20,062)**	**(9,958)**	**379**	**159,207**	**177,761**	**1,643,607**

CASH FLOW STATEMENT

Ref. Note		31/12/2020	Related parties	31/12/2019	Related parties	Change
	Cash flow from operating activities					
	Profit before tax	**175,094**		**219,983**		**(44,889)**
6	Depreciation/amortisation	17,457		15,155		2,302
5	Write-ups/write-downs	(298)		(178,885)		178,587
22	Change in provisions for risks	321		474		(152)
21	Net change in the provision for employee benefits	(4,317)		(3,091)		(1,225)
7-8	Net financial interest	(237,342)		(73,607)		(163,735)
	Income taxes paid	(75,243)		(92,937)		17,694
	Financial flows generated by operating activities before changes	**(124,327)**	**0**	**(112,909)**	**0**	**(11,418)**
20	Increase/decrease in receivables included in current assets	(37,646)	60,083	(12,923)	(9,618)	(24,723)
24.b	Increase/decrease in payables included in the working capital	46,955	(97,829)	3,752	(74,118)	43,203
	Change in working capital	**9,309**	**(37,746)**	**(9,171)**	**(83,736)**	**18,480**
	Change in other assets/liabilities during the period	37,809	0	58,807	4,069	(20,998)
	TOTAL CASH FLOW FROM OPERATING ACTIVITIES	**(77,209)**	**(37,746)**	**(63,273)**	**(79,667)**	**(13,936)**
	Cash flow from investment activities					
11-12	Purchase/sale of tangible fixed assets	(8,955)		(8,087)		(868)
13	Purchase/sale of intangible fixed assets	(23,123)		(16,362)		(6,761)
15-16	Equity investments	(19,732)		(14,008)		(5,724)
	Collections/payments deriving from other financial investments	(543,176)	415,212	(596,096)	(464,443)	52,919
	Collected dividends	204,181	204,181	183,122	183,122	21,060
	Interest income collected	103,281	0	140,747	(9,220)	(37,466)
	TOTAL CASH FLOW FROM INVESTMENT ACTIVITIES	**(287,524)**	**619,394**	**(310,685)**	**(290,541)**	**23,161**
	Cash flow from financing activities					
23	Repayment of mortgages and long-term loans	(462,775)		(290,000)		(172,775)
23	Provision of mortgages/other debts and medium to long term	599,900		500,000		99,900
24.a	Decrease/increase in other financial debts	109,000	(90,863)	18,257	102,884	90,743
	Interest expense paid	(69,961)		(70,911)	(2,277)	950
	Dividends paid	(81,071)	(81,071)	(73,795)	(73,795)	(7,276)
	TOTAL CASH FLOW FROM FINANCING ACTIVITIES	**95,093**	**(171,934)**	**83,551**	**26,812**	**11,543**
	Cash flow for the period	**(269,639)**	**447,460**	**(290,407)**	**(343,396)**	**20,768**
	Net opening balance of cash and cash equivalents	688,145		978,552		(290,407)
	Cash availability from acquisition	0		0		0
	Net closing balance of cash and cash equivalents	**418,505**		**688,145**		**(269,639)**

Amounts in €

NOTES TO THE INCOME STATEMENT

REVENUES

1. Revenue from sales and services – € 152,205 thousand

Revenues from sales and services are as follows:

€ thousand	2020	2019	Change
Revenue from customer services	**33,897**	**40,751**	**(6,854)**
of which Roma Capitale Public Lighting service	33,666	40,631	(6,965)
of which other revenues	231	120	111
Revenues from intragroup services	**118,308**	**111,568**	**6,740**
of which service contracts	101,873	107,971	(6,098)
of which other services	16,435	3,596	12,838
Revenue from sales and services	**152,205**	**152,318**	**(113)**

The reduction in revenues from customer services of € 6,854 thousand is attributable to the reduction in the consideration for the Public Lighting service performed in the Municipality of Rome. In July 2019 the transformation of the functional lights envisaged in the amending agreement for the management of the Public Lighting service contract with Roma Capitale was completed. The reduction in revenues can be traced, beyond this phenomenon, to the decrease in the efficiency fee generated by continued progress in installations, as well as the decrease in new projects executed. Extraordinary maintenance and modernisation and safety activities agreed with Roma Capitale were carried out.
Revenues from intragroup services recorded an overall increase of € 6,740 thousand. This change derives from the combined effect of the reduction in fees for service activities provided to Group Companies due to a change in the contract and in the scope of services rendered (- € 6,098 thousand), compensated for by an increase in re-invoicing and administrative, financial, legal and technical services provided outside of the service contract (+ € 12,838 thousand). Please see the subsequent section on *Relations with Roma Capitale* for more information on the Public Lighting contract.

2. Other proceeds – € 12,589 thousand

The decrease of 18,326 thousand compared to 31 December 2019 is mainly due to the recognition of out-of-period income of € 16,200 thousand in 2019 as a result of the decision of the Regional Administrative Court which annulled the fine imposed by the Antitrust Authority served on 8 January 2019 and against which an appeal has been lodged. Lower revenues for seconded personnel at Group Companies contributed to the decrease, partially offset by higher reimbursements for damages, penalties and similar. Below is the composition.

€ thousand	2020	2019	Change
Non-recurring gains	2,420	20,597	(18,177)
Other revenues	1,702	1,739	(36)
Refunds for damages, penalties, collateral	215	87	128
Regional grants	13	0	13
Seconded personnel	4,645	4,888	(243)
Real estate income	847	791	56
Recharged cost for company officers	2,748	2,815	(67)
Other revenue and income	**12,589**	**30,916**	**(18,326)**

Note that the figures for 31 December 2019 were reclassified to better represent the information.

COSTS

3. Personnel costs – € 61,557 thousand

€ thousand	2020	2019	Change
Personnel costs including capitalised costs	66,549	65,664	885
Staff employed in projects	(3,535)	(3,306)	(229)
Costs capitalised for personnel	(1,458)	(2,062)	605
Personnel costs	**61,557**	**60,296**	**1,261**

The change in personnel costs, including capitalised costs of € 885 thousand derives from the average outstanding amounts, as also highlighted in the table below, offset in part by lower costs for redundancy, mobility and early retirement incentives.
The cost of personnel is netted, as well as capitalised costs, also € 3,535 thousand (+ € 229 thousand compared to 31 December 2019) representing the total amount of personnel costs used in the IT projects for all Group companies participating in the "communion" of the IT platform.

The following table shows the average and final number of employees by category, compared to the previous year.

	Average number of employees			End-of-period composition		
	31/12/2020	31/12/2019	Change	31/12/2020	31/12/2019	Change
Senior executives	51	49	2	56	49	7
Middle managers	169	164	5	168	167	1
Clerical staff	458	429	29	456	429	27
Blue-collar workers	22	23	-1	20	23	-3
Total	**700**	**665**	**35**	**700**	**668**	**32**

4. Costs of materials and overheads – € 142,199 thousand

Compared to 31 December 2019, total external costs increased by € 9,221 thousand. The following is the composition and changes in external costs by nature.

€ thousand	2020	2019	Change
Materials	2,657	1,071	1,587
Services and contract work	128,813	121,935	6,878
Cost of leased assets	3,126	3,938	(812)
Other operating costs	7,603	6,035	1,568
Costs of materials and overheads	**142,199**	**132,979**	**9,221**

€ thousand	2020	2019	Change
Technical and Administrative Services (including consulting and collaborations)	33,133	30,054	3,079
Contract work	7,423	4,644	2,780
Other services	7,060	5,949	1,111
Disposal and transport of sludge, slag, ash and waste	46	89	(44)
Personnel services	4,240	3,916	324
Insurance costs	750	651	99
Electricity, water and gas consumption	15,396	18,324	(2,928)
of which electricity consumption Roma Capitale Public Lighting service	*12,988*	*15,540*	*(2,552)*
Intragroup services and otherwise	25,203	30,046	(4,843)
of which Public Lighting, Roma Capitale	*25,038*	*29,824*	*(4,786)*
Telephone and data transmission costs	831	951	(120)
Postal expenses	915	1,141	(225)
Maintenance fees	13,831	9,456	4,375
Cleaning, transport and porterage costs	4,089	2,854	1,236
Advertising and sponsorship costs	7,033	6,021	1,012
Corporate bodies	906	842	64
Bank charges	1,178	1,019	159
Travel and accommodation expenses	112	544	(432)
Seconded personnel	6,580	5,347	1,233
Typographical expenses	88	88	0
Costs for services	**128,813**	**121,935**	**6,878**

€ thousand	2020	2019	Change
Rent charges	692	37	655
Other rentals and fees (use of third party assets)	2,433	3,900	(1,467)
Cost of leased assets	3,126	3,938	(812)

€ thousand	2020	2019	Change
Taxes and duties	1,893	1,909	(16)
Damages and outlays for legal disputes	381	169	212
Contributions paid and membership fees	2,336	1,892	443
General expenses	1,486	1,874	(388)
Contingent liabilities	1,508	191	1,317
Other operating costs	7,603	6,035	1,568

Relative to the € 9,221 thousand increase in external costs, the following contributed to the result:

- greater costs for technical and administrative consulting for € 3,079 thousand, including various projects relative to the industrial, water and photovoltaic segments;
- greater external costs paid on the account of Group companies, covered by corresponding portions of larger re-invoicing directed at subsidiaries;
- a decrease in costs for software and hardware maintenance fees (+ € 4,375 thousand) relating to the management of the IT platform in common with other Group companies;
- the € 2,928 thousand reduction in electricity consumption, of which € 2,552 thousand relative to the Roma Capitale Public Lighting service; this latter reduction originated from energy savings due to the installation of LED lights and is reflected in the decrease in the rate fees relative to Roma Capitale;
- a € 4,786 thousand reduction in fees to areti for services relative to Public Lighting service management due to the reduction in new installations and completion of the LED Plan;
- greater costs for personnel seconded to other Group companies for € 1,233 thousand.

Please note that other rentals and charges refer mainly to hardware and software for the company data centre.

Please note that, pursuant to article 149-*duodecies* of the CONSOB Issuer Regulations, the fees accrued by the PwC Auditing Company are shown in the table below.

€ thousand	Audit Related Service	Audit Services	Non-Audit Services	Total
Acea SpA	185	251	131	567

Please note that the above fees refer to assignments for the year 2020 entrusted up to 31 December 2020.

5. Net write-downs (write-backs) of trade receivables – - € 300 thousand

The balance of the account is mainly represented by the release of the provision for doubtful accounts relative to the subsidiary Crea as the amount was in excess. The amount released was € 328 thousand.

6. Depreciation, amortisation and provisions – € 23,584 thousand

€ thousand	2020	2019	Change
Amortisation and depreciation	17,457	15,155	2,302
Provision for risks and charges	6,127	7,313	(1,187)
Total	23,584	22,468	1,116

Amortisation and depreciation totalled € 17,457 thousand and refer for € 6,905 thousand to intangible assets, € 5,803 thousand to tangible assets and € 4,749 thousand to depreciation generated by the application of IFRS 16.

Allocations to the provision for risks amount to € 6,127 thousand. The following are their composition by nature and their effects:

€ thousand	2020	2019	Change
Legal	1,509	1,256	253
Contributory risks	6	32	(26)
Total provisions for risks	**1,516**	**1,289**	**227**
Early retirements and redundancies	4,806	6,036	(1,230)
Total provisions	**4,806**	**6,036**	**(1,230)**
Release of provisions	(195)	(12)	(183)
Total	6,127	7,313	(1,187)

With respect to the previous year, an overall decrease was seen in the provisioning, due to lower allocations associated with early retirements and redundancies.

For further details, see the information provided in the section *Update on major disputes and litigation.*

7. Financial income – € 99,268 thousand

€ thousand	2020	2019	Change
Income from intragroup relations	98,206	139,097	(40,890)
Bank interest income	27	152	(125)
Interest on other receivables and short-term loans	606	1,027	(422)
Financial income from discounting to present value	430	526	(96)
Financial income	**99,268**	**140,802**	**(41,534)**

The decrease in financial income of € 41,534 thousand is attributable for € 40,890 thousand to income from intercompany transactions mainly due to the decrease in interest on the revolving credit line for € 39,596 thousand, essentially due to the decrease in interest rates.

8. Financial costs – € 66,108 thousand

€ thousand	2020	2019	Change
Costs (income) on Interest Rate Swaps	4,974	5,191	(218)
Interest on bonds	55,577	64,448	(8,871)
Interest on medium/long-term borrowings	1,204	693	510
Interest on short-term debt	5	0	5
Default interest and interest on deferred payments	40	75	(35)
Interest cost net of actuarial gains and losses	160	334	(174)
Interest on payments by instalment	0	447	(447)
IFRS 16 financial charges	533	522	11
Other financial charges	(1)	58	(59)
Foreign exchange gains (losses)	3,618	544	3,074
Financial costs	**66,108**	**72,313**	**(6,205)**

The € 6,205 thousand reduction in financial expenses derives from lower interest on bond loans (+ € 8,871 thousand), partially offset by greater exchange losses relative to the measurement of Acea International and Aguazul Bogotà at the exchange rate. The change in interest on bond loans includes the effect of the loss of interest accrued on the bond loan repaid in February 2020, partially offset by interest on the new issue of February 2020 and that of May 2019. With reference to the average cost of Acea's debt, there was a decrease compared to the previous year, having risen from 1.90% in 2019 to 1.47% in 2020.

9. Income/expenses from equity investments – € 204,181 thousand

Income from equity investments amounted to € 204,181 thousand, an increase of € 21,060 thousand (previously € 183,122 thousand). It is composed as summarised in the following table.

€ thousand	2020	2019	Change
Acea Ato 2	53,270	64,190	(10,920)
Areti	110,137	59,928	50,209
Acea Elabori	19,618	19,049	569
Acea Ambiente	2,547	23,540	(20,993)
Acque Blue Fiorentine	5,229	5,229	0
Acea Produzione	1,257	3,158	(1,900)
Aquaser	2,620	2,844	(225)
Acea8cento	220	378	(158)
Acea International	1,077	887	190
Intesa aretina	452	638	(186)
Geal SpA	384	269	115
Acque Blue Arno Basso	1,791	0	1,791
Ingegnerie Toscane	219	433	(214)
Aguazul Bogotà SA	0	2,579	(2,579)
Acea Energia	5,361	0	5,361
Total	**204,181**	**183,122**	**21,060**

Taxes – - € 2,667 thousand

Total taxes amount to - € 2,667 thousand, against € 11,495 thousand at 31 December 2019. In particular, the tax calculation is affected by the Tax Law applicable to the tax treatment of the collected dividends, the provisions for the provision for risks, as well as the deductibility of the interest expense of Acea for the Group tax consolidation. Income taxes for the year have an impact on the pre-tax result of 5.2%.
The balance consists of the algebraic sum of the following items.

Current taxes

Current taxes amounted to € 94,218 thousand (€ 84,685 thousand as at 31 December 2019) and refer to consolidated IRES calculated on the sum of taxable income and tax losses of the companies consolidated on a tax basis and IRAP.
It should be noted that this effect is cancelled by the recognition of income deriving from the attribution of the taxable income of the companies participating in the tax consolidation.
This effect is summarised in the table below and shows the reconciliation between the theoretical and actual rates.

Deferred taxes

Net deferred tax assets decreased taxes by € 1,934 thousand (€ 513 thousand at 31 December 2019) and consisted of the algebraic sum of provisions (€ 5,090 thousand) mainly on the provision for risks, the allowance for doubtful receivables and provisions for defined benefit plans and utilisations (€ 3,156 thousand). Deferred tax liabilities increase by € 1,719 thousand and relate only to provisions.

Charges and income from tax consolidation

These amount to € 96,560 thousand (€ 73,945 thousand as at 31 December 2019) and represent the positive balance between the tax charges that the Parent Company has towards tax consolidation companies against the transfer of tax losses (€ 559 thousand) and the tax income recorded as a counterpart of the taxable income transferred to the consolidated company (€ 97,119 thousand).
The compensation for the loss, as per the general consolidation regulation, is determined by applying the current IRES rate to the amount of the tax loss transferred.
The table below shows the reconciliation between the theoretical and actual tax rates.

	31/12/2020	%	31/12/2019	%
Pre-tax result of continuing operations	175,094		219,983	
Expected tax charge at 24% on profit before tax	42,023	24.0%	52,796	24.0%
Permanent differences *	(44,689)	(25.52%)	(43,973)	(20.0%)
IRES for the period **	(2,667)	(1.52%)	9,204	4.2%
IRAP for the period **	2,291	0.0%	2,291	1.0%
Taxes on the operating income of continuing operations	**(2,667)**	**(1.52%)**	**11,495**	**5.2%**

* They mainly include the taxed portion of dividends.
** Including deferred tax.

NOTES TO THE BALANCE SHEET – ASSETS

11. Tangible fixed assets – € 102,010 thousand

This item shows an increase of € 3,125 thousand compared to the value of 31 December 2019.
The change mainly refers to the net effect between investments, totalling € 8,955 thousand, and amortisation which amounts to € 5,745 thousand.
Investments during the period include the Telecontrol devices of the Public Lighting network in Rome, created by Acea at the request of Roma Capitale in fulfilment of the service contract.
The other investments mainly relate to extraordinary maintenance on the offices used for business activities, in addition to the investments relating to the hardware required for technological development projects for the improvement and evolution of the IT network and computers.
The table below summarises the changes occurred in the period.

€ thousand

	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets under construction	Total tangible fixed assets
Historical cost 31/12/2019	**102,517**	**28,444**	**13,819**	**56,088**	**1,762**	**202,629**
Investments/acquisitions	597	4,587	4	2,728	1,038	8,955
Disinvestments	(11)	(10)	0	(64)	0	(85)
Other changes	0	0	0	1,161	(1,161)	0
Historical cost 31/12/2019	**103,102**	**33,022**	**13,823**	**59,913**	**1,639**	**211,499**
Accumulated depreciation at 31/12/2019	**(24,180)**	**(16,172)**	**(12,846)**	**(50,546)**	**0**	**(103,744)**
Depreciation/amortisation and impairment charges	(488)	(2,811)	(240)	(2,206)	0	(5,745)
Disinvestments	0	0	0	0	0	0
Other changes	0	0	0	0	0	0
Accumulated depreciation at 31/12/2020	**(24,668)**	**(18,983)**	**(13,086)**	**(52,752)**		**(109,488)**
Net value 31/12/2020	78,435	14,039	737	7,161	1,639	102,010

12. Real estate investments – € 2,372 thousand

These amount to € 2,372 thousand, a reduction of € 58 thousand due to the depreciation of the year and consist mainly of land and buildings not used for production and held for rental purposes.

13. Tangible fixed assets – € 40,235

Investments mainly concerned the purchase and development of software to support the development of systems for managing IT platforms, corporate security and administrative management.
Below is a summary of the changes occurred during the period:

€ thousand	Patents and intellectual property rights	Concessions and trademarks	Fixed assets under construction	Total Intangible fixed assets
Net value 31/12/2019	**16,076**	**9**	**8,198**	**24,283**
Investments/acquisitions	9,853	0	13,270	23,123
Disinvestments	(228)	0	(38)	(266)
Other changes	4,619	0	(4,619)	0
Depreciation/amortisation	**(6,896)**	**(9)**	**0**	**(6,905)**
Net value 31/12/2020	23,425	0	16,810	40,235

14. Right of use – € 17,626 thousand

This item includes rights to use the assets of others which, as of 1 January 2019, are recognised as leased assets and amortised over the duration of the contracts, after application of the new international standard IFRS 16. At 31 December 2020 the net book value of these assets was € 17,626 thousand.

€ thousand	31/12/2020	31/12/2019	Change
Land and buildings	16,138	14,416	1,723
Cars and motor vehicles	1,426	1,330	96
Machinery and equipment	0	0	0
Other	61	0	61
Total	17,626	15,746	1,881

The table below shows the changes during the period:

€ thousand	Land and buildings	Cars and vehicles	Other	Total
Opening balance	14,416	1,330	0	15,746
New contracts	5,396	992	0	6,388
Remeasurement	241	0	0	241
Reclassifications	0	(128)	128	0
Depreciation/amortisation	(3,915)	(768)	(67)	(4,749)
Total	**16,138**	**1,426**	**61**	**17,626**

There are also no guarantees on residual value, variable payments and leases not yet signed to which Acea has committed itself for a significant amount.

Finally, it should be noted that costs relating to short-term leases and assets of modest value are recognised in the Income Statement item "leases and rentals" in line with the requirements of IFRS 16 and in continuity with previous years.

15. Investments in subsidiaries and associates – € 1,839,964 thousand

These recorded an increase of € 26,050 thousand and is as follows:

€ thousand	31/12/2020	31/12/2019	Change
Investments in subsidiaries	1,818,678	1,792,439	26,239
Investments in associated companies	21,286	21,475	(189)
Total shares held	**1,839,964**	**1,813,914**	**26,050**

Investments in subsidiaries

Changes for 2020 are summarised below.

Shares held in subsidiaries	Historical cost	Reclassifications and other changes	Write-ups/write-downs	Disposals	Net value
Values at 31 December 2019	**3,188,007**	**(376,507)**	**(57,619)**	**(961,441)**	**1,792,440**
2019 changes:					
- changes in share capital	8,436	0	0	0	8,436
- acquisitions/formations	19,732	0	0	0	19,732
- disposals/distributions	0	0	0	0	0
- reclassifications and other changes	0	1,618	0	0	1,618
- write-downs/write-ups	0	0	(3,548)	0	(3,548)
Total changes in 2020	**28,169**	**1,618**	**(3,548)**	**0**	**26,239**
Values at 31 December 2020	**3,216,176**	**(374,890)**	**(61,167)**	**(961,441)**	**1,818,678**

The changes occurred involve:

- € 28,169 thousand are related to:
  1. € 8,436 thousand relate to the recapitalisation of Acea Ato 5 through the creation of an equity reserve to cover operating losses by means of the remission of the interest receivable accrued as at 31 December 2019 on the loan for the same amount for € 5,359 thousand and the remission of € 3,077 thousand for the receivable for interest on arrears accrued at 31 December 2019;
  2. € 19,732 thousand refers to the acquisition of 51% of the share capital of Alto Sangro Distribuzione Gas S.r.l.;
- € 1,618 thousand refers to the value of the difference between the non-interest bearing loan in favour of the subsidiary Umbriadue Servizi Idrici provided and its value as of the disbursement date;
- € 3,548 thousand refers to the adjustment made to the exchange rate for the equity investment in Acea International S.A.

For purposes of verifying the recoverable value of investments, the impairment test was carried out, pursuant to IAS 36, substantially on all its direct and indirect subsidiaries.

Below is the methodology used, as well as comments on the results of the sensitivity and impairment tests carried out. The impairment procedure for equity investments compares the carrying amount of the investment with its recoverable value, identified as the higher of value in use and fair value, net of selling costs.
The value in use represents the present value of expected cash flows that are expected to derive from the continuous use of all assets relating to the investment. The fair value, net of sales costs, represents the amount obtainable from the sale in a free transaction between knowledgeable and willing parties.

The 2020 impairment process provides the estimate of an interval relative to the recoverable value of individual investments in terms of value in use in methodological continuity with respect to the previous year, or through the financial method that recognises the ability to generate cash flows the essential element for assessing the reference entity. For the purpose of discounting operating cash flows, the weighted average cost of post-tax capital (WACC) is used. The estimate of the recoverable value of the equity investments is hence expressed in terms of value in use.

The application of the financial method for determining the recoverable value and the subsequent comparison with the respective accounting values, therefore entailed, for each equity investment subject to impairment testing, estimating the post tax WACC, the value of operating cash flows taken from the Business Plan approved by the Board of Directors (VO) and the value of the Terminal Value (TV) and, in particular, the growth rate used to project flows beyond the plan horizon, the value of the net financial position (NFP) and any surplus assets/liabilities (SA).

The main assumptions which determined cash flows and test results were the following:

- the development of revenues for regulated businesses was drawn up on the basis of tariff trends resulting from national regulation and/or agreements with the regulatory authorities;
- the dynamics of the prices of electricity and gas sold and purchased on the Free Market were developed on the basis of business considerations consistent with the energy scenario developed in the business plan;
- the inertial evolution of the Group's costs over the course of the plan was developed by formulating hypotheses based on the set of information available at the time the plan was drawn up.

Terminal Value is calculated:

- for Acea Produzione: considering the contribution to the cash flows of the various plants until the end of the hydroelectric concessions and the useful life of the plants;
- for the Environment and Overseas Segments, respectively, considering the residual value corresponding to the net invested capital at the end of the plants' useful life and of the concession;
- for *areti*: considering the current value of the RAB at the expiry of the concession calculated according to the regulations for the fifth regulatory period;
- for the Water Segment: considering the current value of the RAB at the end of the concession;
- for the Commercial and Trading Segment normalised cash flows were estimated with a steady state hypothesis without real growth.

Finally, the flows determined as above were discounted using the post-tax WACC determined using an unconditional approach or using the regulatory WACC for regulated business. Given the impacts of Covid-19 and the consequent economic policies adopted by central banks to limit the impacts of the pandemic, which created a significant reduction in interest rates, especially during the second half of 2020, it was decided to lengthen the observation period so as to "neutralise" this reduction. Consequently, the WACCs are substantially in line with those used in the impairment test the previous year.

Finally, the following table shows summary figures for the operating segments to which the investments recorded in the Financial Statements of the Parent Company refer. For each operating segment, the type of recoverable value considered, the discount rates used and the time scale of cash flows are specified.

Industrial Area	Recoverable value	WACC	Terminal Value	Cash flow period
Energy Infrastructure Segment				
Areti	value in use	5.9%	Regulatory Asset Base (RAB)	Until 2025
Acea Produzione	value in use	5.2%	NIC/perpetuity at the end of the plants' useful life	Useful life of plants/end of concession
Ecogena	value in use	5.2%	NIC at the end of the plants' useful life	Plants' useful life
Water/Gas Segment	**value in use**	**5.2%/6.3%**	**Regulatory Asset Base (RAB)**	**End of the concession**
Commercial and Trading Segment	**value in use**	**5.8%**	**Perpetuity without real growth**	**Until 2025**
Overseas Segment	**value in use**	**6.4%/11.0%**	**NIC at the end of the concession**	**End of the concession**
Environment Segment	**value in use**	**5.2%**	**NIC at the endof the plants' useful life**	**Plants' useful life**

To support the analysis deriving from the test, sensitivity analysis was done to highlight the impact of recoverable values from equity investments in the case of variations in specific assumptions, so as to identify the main break-even assumptions. Based on this analysis, hypotheses regarding changes in discount rates, growth rates or a reduction in profitability were found to be unrealistic and/or immaterial, with the exception of the equity investments in Acque Industriali S.r.l., Acea Ato 5SpA, Acea Liquidation and Litigation S.r.l. for which a 0.5% increase in the discount rate would lead to a writedown on the equity investment.

With reference to Acea Ato 5, note that on 10 March 2021, the Conference of Mayors for Optimal Territorial Area Authority no. 5 – Southern Lazio (hereafter, OTAA 5), approved the Tariff Structure for the regulatory period 2020-2023 with Resolution 1/2021. This is in contrast with the tariff adjustment request, prepared by the Operator pursuant to art. 5, para. 5.5 of Resolution ARERA 580/2019/R/idr, containing the regulatory framework for the 2020-2023 third regulatory period and showing significant differences for the 2020-2023 period, with reference to operating costs and the tariff multiplier.
With reference to operating costs note that the lack of recognition by OTAA 5 of the operating costs suffered by the Operator, documented in the requests presented during the preparatory work for the tariff structure, definitively formalised by the Operator in the tariff update request sent on 15 December 2020, was not adequately justified and technically represented in the Technical Report issued by OTAA 5 and accompanying its tariff proposal. Hence at present the Operator is not aware of the reasons these costs were excluded from the tariff recognition approved by OTAA 5 on 10 March 2021.
Relative to the tariff multiplier note that the Tariff Structure approved by OTAA 5 established a tariff multiplier with the following problems:

- it does not indicate specific invoicing schedules to recover previous adjustments equal to € 101 million;
- the amount of adjustments inserted by OTAA 5 in the Economic Financial Plan is not included in the formula which determines the tariff multiplier for the relevant years (2023-2024);
- the reduction in operating costs which occurred in years for which Acea Ato 5 already suffered the relative charge (costs in the Financial Statements 2018-2019, basis for tariff determination 2020-2023), leads to a financial loss of the same amount, as it is necessary to apply a tariff change, for the respective years, less than that applied as of 1 January 2020.

As a result of the approval of the 2020-2023 tariff provisions, the Directors of Acea Ato 5 acknowledged a financial discrepancy significant enough to raise serious doubts about the subsidiary as a going concern.
In this regard and in light of the forthcoming approval of the subsidiary's draft annual Financial Statements, the Company Directors launched a review of the previously approved 2021 Budget and the related 2020-2024 Plan in order to implement all the appropriate measures to re-establish the financial stability needed to

confirm the assumption of the business as a going concern. The objectives of these actions include, among other things:

1. compliance with payment schedules – in terms of the previous debt position, already at the end of 2020 the company had signed repayment plans for previous debts, agreeing to payments over timeframes exceeding 12 months with the counterparties (both third parties and infragroup);
2. intensifying actions intended to reduce collection times and to improve the collection percentage for receivables recognised in the Financial Statements;
3. pursuing new short term credit lines to support working capital and, therefore, day to day operations;
4. adjusting investments so as to guarantee both continuity of service and financial sustainability for the commitments that the company may take on;
5. reducing operating costs proportionally to lower revenues coming from the Economic Financial Plan approved by the OTAA 5 Conference of Mayors;
6. possible activation of initiatives which can be implemented in areas deemed expedient to obtain an adjustment of tariffs.

Additionally, given the various variables which affect the Acea Ato 5 economic financial plan, sensitivity analysis was done based on whether or not the efficiency objectives are achieved, as established in the subsidiary's new business plan, and on whether or not the economic financial rebalancing request is granted (this is based on the tariff proposal submitted by the company, but not recognised by OTAA 5). Below are the results of the sensitivity analysis, noting that the "base case" for the impairment test coincides with the upper left section of the table, which foresees 100% achievement of cost savings objectives and no benefit deriving from the actions the Company intends to undertake to obtain a tariff adjustment.
This scenario was prudentially used as the base case for the impairment test considering only the elements of improvement which are under the company's control (cost savings) and not those which ultimately depend upon decisions and factors external to the company (tariff adjustment). Note that this structure does not in any reflect an assessment of the likelihood of a tariff adjustment being recognised, which is actually deemed probable in consideration of the incompatibility of the financial imbalance caused to the Operator by the new tariff structure with respect to the current legal and regulatory framework, but is only functional to the execution of the impairment test in compliance with that established under IAS 36:

€ thousand		Achievement of target cost efficiency (100% = € 6.0 million)							
		100%	90%	80%	70%	67%	60%	50%	40%
Target on tariff revision (100% = € 55.0 million)	0%	753	(2,828)	(6,409)	(9,989)	(11,183)	(13,570)	(17,151)	(20,732)
	20%	1,882	(1,699)	(5,279)	(8,860)	(10,054)	(12,441)	(16,002)	(19,603)
	40%	5,522	1,942	(1,639)	(5,220)	(6,414)	(8,801)	(12,382)	(15,962)
	61%	11,942	8,361	4,780	1,199	6	(2,832)	(5,962)	(9,543)
	80%	20,335	16,754	13,174	9,593	8,399	6,012	2,431	(1,150)
	100%	31,508	27,927	24,346	20,765	19,572	17,185	13,604	10,023

Shares held in affiliate companies

These amounted to € 21,286 thousand and changed in 2020 due to the decrease in share capital and the adjustment to the exchange rate of Aguazul Bogotà (these were € 21,475 thousand at 31 December 2019).
The changes occurred during the year are shown below.

Shares held in associate companies	Historical cost	Reclassifications	Write-ups/ write-downs	Disposals	Net value
Values at 31 December 2019	**94,570**	**13,600**	**(80,834)**	**(5,861)**	**21,475**
2019 changes:					
- changes in share capital	0	0	0	0	0
- acquisitions/formations	0	0	0	0	0
- disposals/distributions	(165)	0	0	0	(165)
- reclassifications and other changes	0	0	0	0	0
- write-downs/write-ups	0	0	(24)	0	(24)
Total changes in 2020	**(165)**	**0**	**(24)**	**0**	**(189)**
Values at 31 December 2020	**94,405**	**13,600**	**(80,858)**	**(5,861)**	**21,286**

16. Other equity investments – € 2,350 thousand

"Other equity investments" refer to investments in equity securities that do not constitute control, association or joint control.
During the year, the equity investment in Green Capital Alliance Società Benefit S.r.l. was eliminated, equal to € 2 thousand, after removal of the company from the Companies Register on 1 June 2020.

17. Deferred tax assets – € 17,898 thousand

These decreased by € 738 thousand compared to 31 December 2019.
The following table shows the changes and the balance as at 31 December 2020, distinguishing the Assets for prepaid taxes from the Provision for deferred taxes.

With regard to the recoverability of deferred tax assets, it must be noted that the valuation of deferred tax assets was carried out on the basis of Acea's business plans and, with regard to the time scale, considering a reasonable estimate of the reversal period.

Changes in the period

€ thousand	31/12/2019	IRES/IRAP uses	Changes in SE	IRES/IRAP advances	31/12/2020
Prepaid taxes					
Remuneration of members of the BoD	14	(3)		1	11
Provision for risks and charges	2,930	(1,753)		1,912	3,089
Write-down of investments	0	0		0	0
Provision for doubtful accounts	**11,410**	**(10)**	**0**	**2,358**	**13,758**
Depreciation and amortisation of tangible and intangible assets	256	(595)	0	563	225
Defined benefit plans/defined contribution	5,536	(682)	(748)	256	4,362
Others	5,720	(112)	1,006	0	6,613
Total	**25,867**	**(3,156)**	**258**	**5,090**	**28,058**
Deferred taxes					
Deferred taxes on dividends	128	(110)		0	18
Depreciation and amortisation of tangible and intangible assets	67	0	0	39	106
Defined benefit plans/defined contribution	237	0	(57)	0	179
Others	6,799	0	1,378	1,680	9,857
Total	**7,230**	**(110)**	**1,320**	**1,719**	**10,160**
Net total	**18,636**	**(3,046)**	**(1,062)**	**3,371**	**17,898**

18. Non-current financial assets – € 238,442 thousand

This increased by € 11,771 thousand with respect to 31 December 2019 (previously € 226,671 thousand), and can be broken down as follows:

€ thousand	31/12/2020	31/12/2019	Change
Financial receivables from Roma Capitale	11,756	15,227	(3,471)
Financial receivables from subsidiaries	211,610	192,645	18,965
Receivables from others	15,075	18,798	(3,723)
Total	**238,442**	**226,671**	**11,771**

The item **Financial receivables from Roma Capitale** shows a decrease of € 3,471 thousand and refers to investments in the Public Lighting service, such as plant redevelopment, energy saving, regulatory compliance and technological innovation, which will be paid to Acea, equal to the tax depreciation, beyond the year 2020, in accordance with what was agreed in the Supplementary Agreement to the service contract signed on 15 March 2011.
Financial receivables from subsidiaries increased by € 18,965 thousand compared to 31 December 2020. During 2020, the following new financing was disbursed:

- € 10,000 thousand to Umbriadue, interest bearing;
- € 6,110 thousand to Umbriadue, non-interest bearing and recognised at the current value of € 4,492 thousand.

Additionally, an agreement was signed in December to amend the Shareholders' loan in favour of TWS, which extended the maturity of the residual amount to 31 December 2023, which amounts to € 4,000 thousand after the € 3,600 thousand payment made in September.

These receivables are considered entirely recoverable.

€ thousand	31/12/2020	31/12/2019	Change
Acea Ato 5	187,742	187,742	0
Umbriadue Servizi Idrici	14,965	0	14,965
Acea Molise	4,870	4,870	0
Technologies for water service	4,000	0	4,000
Ecomed	33	33	0
Total financial receivables from subsidiaries	**211,610**	**192,645**	**18,965**

The item **Receivables from others**, amounting to € 15,075 thousand, is composed of € 14,727 thousand from the application of the financial asset model envisaged by IFRIC 12 regarding services under concession. This receivable represents all the investments made up to 31 December 2010 related to the service itself.

19. Current assets – € 3,825,518 thousand

These recorded an increase of € 309,025 thousand (€ 3,516,493 thousand as at 31 December 2019) and are broken down as follows.

19.a – Trade Receivables – € 136,552 thousand

These saw an increase of € 37,946 thousand compared to 31 December 2019 (then € 98,605 thousand). The comparative values as at 31 December 2019 were the subject of reclassifications in respect of published data for the purpose of better understanding the changes occurred.

Below is their composition:

€ thousand	31/12/2020	31/12/2019	Change
Receivables from customers	726	710	17
Receivables from the Parent Company – Roma Capitale	22	47	(25)
Receivables from subsidiaries and associates	135,803	97,849	37,954
Total trade receivables	**136,552**	**98,605**	**37,946**

Trade receivables
These amounted to € 726 thousand net of the allowance for doubtful receivables amounting to € 2,124 thousand and increased by € 17 thousand.
Receivables included under this item refer to positions accrued in respect of private and public entities for services rendered.

Provision for doubtful debts
These total € 2,124 thousand and did not change compared to 31 December 2019.
The estimate of the amounts considered non-collectable is estimated based on the provisions of IFRS 9, or, through the application of the expected credit loss model for the evaluation of the recoverability of the financial assets based on a predictive approach, based on the prediction of the counterparty's default (so-called "probability of default") and of the ability to recover if the default event occurs (so-called "loss given default").

Relations with the Parent Company – Roma Capitale
The following table shows together the amounts resulting from the relations with Roma Capitale from Acea, both with regard to the borrowing and lending due within and beyond the following year, including items of a financial nature.

€ thousand	31/12/2020	31/12/2019	Change
Receivables for services invoiced	5	41	(35)
Receivables for services to be invoiced	17	6	11
Total trade receivables	**22**	**47**	**(25)**
Financial receivables for Public Lighting services billed	129,336	138,798	(9,462)
Provision for doubtful debts	(30,152)	(30,152)	0
Financial receivables for Public Lighting services to be billed	65,033	39,195	25,837
Provision for doubtful debts	(21,960)	(14,960)	(7,000)
M/L term financial receivables for Public Lighting services	11,756	15,227	(3,471)
Total financial receivables for Public Lighting	**154,012**	**148,107**	**5,905**
Total receivables	**154,034**	**148,154**	**5,880**
Dividend payables	(128,544)	(77,114)	(51,430)
Other payables	(1,043)	(139)	(904)
Total payables	**(129,587)**	**(77,252)**	**(52,334)**
Total net balance receivables payables	**24,447**	**70,901**	**(46,455)**

As regards **relations with Roma Capitale**, the net balance at 31 December 2020 was a positive € 24,447 thousand, compared to the previous balance of € 70,901 thousand at 31 December 2019. The main reason for the decrease in the net credit/debit balance is the recognition of dividends accrued in financial year 2019 for € 84,717 thousand.
The change in receivables and payables is due to the accrual of the period and the effects of offsets/revenues, summarised below.

- February 2020: receivables for € 10,463 thousand relating to the Public Lighting service and for 2018 and 2016-2018 pro-rata amounts were offset by the portion of dividends for 2018;
- September 2020: receivables for € 22,824 thousand relating to the Public Lighting service for fees and for 2019 pro-rata amounts were offset by a second portion of dividends for 2018;
- November 2020: Acea collected other receivables for € 273 thousand.

Financial receivables increased by € 5,905 thousand compared to the previous period, to be attributed to the combined effect of: 1) offsetting of financial receivables in February and September (as noted above), and 2) accrual of receivables related to the Public Lighting service agreement, to the modernisation of security, to extraordinary maintenance and to works related to the Public Lighting service.

Recall that as part of the activities required for the first consolidation of the Acea Group in the 2018 Financial Statements of Roma Capitale, a round table was launched to reconcile the Roma Capitale Receivables and Payables. After several meetings and communications, on 22 February 2019 the Technical Department of the Municipality (SIMU) in charge of the management of the contracts with the Acea Group communicated several objections relating to the supply of both works and services for the period 2008-2018. These objections were completely rejected by the Group.

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

Following several meetings, on 18 October 2019, the Joint Technical Committee drew up a report on the closure of the work, highlighting the results that emerged and proposing a favourable restart of the ordinary execution of the mutual obligations between the Acea Group and Roma Capitale.

As a first step after the completion of the work, the parties took steps to implement the results that emerged from the discussions, restarting the payment of their respective receivables and payables. In 2020 at total of € 10,463 thousand of receivables referred to the aforementioned Report were closed.

During the year receivables grew by € 5,880 thousand was recorded compared to the previous year, to be attributed to the accrual during the period of receivables relative to the Public Lighting service agreement, to the modernisation of security, to extraordinary maintenance, to the LED plan agreement and to the works relating to the Public Lighting service.

We can inform you finally that, as regards the Public Lighting service, following the opinion given by the AGCM (Antitrust Authority) in Bulletin no. 49 of 14 December 2020, Roma Capitale began checking the conditions of congruity and economic convenience of the performance terms pursuant to the service contract between the Administration and Acea SpA (and for it *areti*) compared with the terms pursuant to the CONSIP – Luce 3 Convention and, in addition, on the basis of the positions expressed by the AGCM in the said opinion, expressed perplexities on the legitimacy of the award to Acea SpA itself. On 8 February 2021, with a note ref. DG 1585/2021, Roma Capitale communicated the results of the said checks, affirming definitively "the congruity and convenience of the economic terms currently in being with respect to the qualitative and economic parameters of the CONSIP – Luce 3 Convention" and confirming "the correctness of the prices applied for the Public Lighting service", overcoming definitively all reserves on the congruity of the prices charged in the context of the contractual relationship in being between Roma Capitale and Acea SpA. In the same note, the Administration therefore ordered the restart of the procedures for payment of Acea's ascertained receivables in relation to the service contract. We can note that the said communication regards the correctness of the prices charged, without affecting the Administration's intention, already manifested, to terminate the relationship with Acea to call for tenders and thus make a new award for the Public Lighting service.

Receivables from subsidiaries and associates

Receivables from subsidiaries and associates total € 135,803 thousand and increased by € 37,954 thousand compared to the previous year. They mainly refer to services rendered under service contracts and receivables deriving from the allocation of costs incurred for the joint IT platform. The comparative values as at 31 December 2019 were the subject of reclassifications in respect of published data for the purpose of better understanding the changes.

Below is their composition:

€ thousand	31/12/2020	31/12/2019	Change
Acea Ato 5	43,077	33,391	9,687
Areti Spa	30,672	18,367	12,305
Acea Ato 2	17,346	10,597	6,749
Acea Energia SpA	9,183	6,692	2,491
Gesesa	7,001	6,265	736
Acea Molise S.r.l.	5,350	4,666	684
Acquedotto Del Fiora SpA	3,251	2,402	849
Publiacqua	3,068	1,627	1,441
Acea Ambiente S.r.l.	2,313	960	1,353
Acea Elabori SpA	2,123	1,036	1,087
Umbra Acque SpA	2,118	1,736	382
Acque SpA	1,726	1,557	169
Gori	1,323	1,330	(7)
Acque Industriali	1,263	791	472
Marco Polo	1,236	1,236	0
Acea Produzione SpA	897	832	65
Sarnese-Vesuvianoo	823	778	45
Umbriadue Servizi Idrici S.c.a.r.l.	686	968	(282)
Acea Innovation S.r.l.	503	457	46
Aquaser	275	1	274
Ingegnerie Toscane S.r.l.	231	86	145
Coema	184	162	22
Ecogena	145	3	142
Bioecologia S.r.l.	136	262	(126)
Acea Perù	135	104	31
Crea SpA	118	5	113
Acea Solar	102	0	102
Acque Blu Arno Basso SpA	74	62	12
Acea Dominicana	72	596	(524)
Acque Blu Fiorentine	69	27	42
Ombrone	41	57	(16)
Other	261	797	(536)
Total	**135,803**	**97,849**	**37,954**

19.b – Other current assets – € 56,458 thousand

These recorded an increase of € 15,880 thousand and are made up as follows. As of this year, this item includes tax consolidation receivables previously classified among tax receivables. 2019 amounts were therefore adjusted for better representation.

€ thousand	31/12/2020	31/12/2019	Change
Receivables due to the transferee Area Laurentina	6,446	6,446	0
Accrued income and prepayments	5,769	4,888	881
Other receivables	204	701	(497)
Receivables from national insurance institutions	305	295	10
Receivables due to severance pay for individual transfers	1,931	1,986	(55)
Advances to suppliers and deposits with third parties	261	0	261
VAT receivables	8,993	17,720	(8,727)
Other tax receivables	374	399	(25)
Tax consolidation receivables due from subsidiaries	32,175	8,142	24,033
Total	56,458	40,577	15,880

Receivables from national insurance institutions include receivables generated by the return of Marco Polo to the facility management sector for amounts due to employees. Accrued income and prepaid expenses mainly include IT infrastructure maintenance and IT services, insurance contracts and insurance premiums.

19.c – Current tax assets – € 0 thousand

These decreased by € 2,624 thousand with respect to the end of the previous year. In 2019, the balance consisted of the IRES receivables for payments on account.

€ thousand	31/12/2020	31/12/2019	Change
IRES receivables for payments on account	0	2,624	(2,624)
Total receivables from the tax authorities	0	2,624	(2,624)
Total tax receivables	0	2,624	(2,624)

19.d – Current financial assets – € 3,214,004 thousand

These recorded an increase of € 527,462 thousand and can be broken down as follows.

€ thousand	31/12/2020	31/12/2019	Change
Receivables from parent companies – Roma Capitale	142,256	132,881	9,375
Receivables from subsidiaries and associates	2,841,780	2,406,879	434,902
Receivables from others	229,967	146,783	83,185
Total	3,214,004	2,686,542	527,462

Receivables from parent companies – Roma Capitale

These amount to a total of € 142,256 thousand and refer to receivables due from Roma Capitale relating to the Public Lighting service contract as anticipated in the section of this document titled *Relations with the Parent Company Roma Capitale*.

Receivables from subsidiaries and associates

These amount to € 2,841,780 thousand (€ 2,406,879 thousand at 31 December 2019) and are composed as follows:

€ thousand	31/12/2020	31/12/2019	Change
Receivables from cash pooling relationships	2,725,999	2,247,600	478,399
Accrued current financial assets on loans and cash pooling relationships	97,062	135,498	(38,436)
Receivables from subsidiaries for loans	14,363	18,297	(3,934)
Other receivables from subsidiaries	1,486	1,486	(0)
Receivables for commissions on guarantees given	2,750	3,998	(1,248)
Receivables from associates	121	0	121
Total	2,841,780	2,406,879	434,902

The change with respect to the end of the previous year is mainly due to the increase in balances in the current accounts with Group companies which adhered to a revolving type loan, covering working capital and investment requirements and due to the reduction in associated accrued income, mainly due to the reduction in interest rates. Receivables from subsidiaries for loans; this decrease is attributable to reclassification of the long-term loan to TWS, which was extended, with the maturity postponed to 31 January 2023.

Receivables from others

These total € 229,967, an increase of € 83,185 thousand with respect to 31 December 2019, due to the combined effect of the collection of the AGCM receivable of € 16,263 thousand (or the fine including interest paid) and the increase in short-term deposits, which went from € 125,000 thousand to € 225,000 thousand.

€ thousand	31/12/2020	31/12/2019	Change
Receivables for managing the Public Lighting service	4,412	5,040	(628)
Receivables from the Competition Authority	0	16,263	(16,263)
Receivables on short-term deposits	225,000	125,000	100,000
Financial accrued income	282	206	76
Receivables from SEIN from Liquidation of Acea Ato 5 Servizi	274	274	0
Total	**229,967**	**146,783**	**83,185**

19.e – Cash and cash equivalents – € 418,505 thousand

These recorded a decrease of € 269,639 thousand (€ 688,145 as at 31 December 2019) and represent the balance of bank and postal current accounts opened at the various credit institutions as well as at Ente Poste.

NOTES TO THE BALANCE SHEET – LIABILITIES

20. Shareholders' equity – € 1,643,607 thousand

€ thousand	31/12/2020	31/12/2019	Change
Share capital	1,098,899	1,098,899	0
Legal reserve	129,761	119,336	10,424
Reserve for own shares	0	0	0
Other reserves	77,980	75,157	2,822
Profits carried forward	159,207	126,931	32276244
profit (loss) for the year	177,761	208,488	(30,727)
Total	**1,643,607**	**1,628,812**	**14,796**

Shareholders' equity increased by € 14,796 thousand compared to 31 December 2019. This change is mainly due to the profit reported in the year and to the effects generated by the allocation of the result achieved in 2019 equal to € 0.78 per share, as well as the changes in other reserves.

The composition and changes per item are shown below:

20.a – Share capital – € 1,098,899 thousand

This amounts to € 1,098,899 thousand and is represented by 212,964,900 ordinary shares with a par value of € 5.16 each, as shown in the Shareholders' Register. The share capital is subscribed and paid-up in the following manner:

- Roma Capitale: 108,611,150 for a total nominal value of € 560,434 thousand;
- market: 103,936,757 shares for a total par value of € 536,314 thousand;
- treasury shares: 416,993 ordinary shares with a total nominal value of € 2,151 thousand.

20.b – Legal reserve – € 129,761 thousand

It includes 5% of the profits of the previous financial years as required by article 2430 of the Italian Civil Code.
At 31 December 2020 there was an increase of € 10,424 thousand compared to the previous year, due to the allocation of profit achieved in 2019.

20.c – Other reserves – € 77,980 thousand

The composition of the Item and the changes for the period are provided below:

€ thousand	31/12/2020	31/12/2019	Change
Extraordinary reserve	180	180	0
Demerged capital gains reserve	102,567	102,567	0
Reserve for exchange differences	5,053	691	4,363
Valuation reserve for financial instruments	(20,062)	(16,877)	(3,185)
Reserve for actuarial gains and losses	(9,958)	(11,602)	1,644
Other miscellaneous reserves	198	198	0
Total	**77,980**	**75,157**	**2,822**

The reserve for differences in exchange records a decrease of € 4,363 thousand and represents the effect of the valuation at the exchange rate on 31 December 2020 of the private placement in Yen stipulated in 2010.
The cash flow hedge reserve is negative and stands at € 20,062 thousand. This reserve includes € 3,334 thousand for the negative difference deriving from the delta of conversion rates between that provided for in the hedging contract and that recorded on the adjustment date of the bond (3 March 2010).
The table below shows available and unavailable reserves.

€ thousand	31 December 2020				
	Amount	Possibility of use	Distributable portion	Summary of use made in the previous three years	
				Loss coverage	Other reasons
Capital reserves					
Reserve deriving from the ARSE spin-off	6,569	A, B, C	6,569		
Profit reserves from the Income Statement					
Legal reserve	129,761	A, B	129,761		
Extraordinary reserve	180	A, B, C	180		
Demerged capital gains reserve	102,567	A, B, C	102,567		
Retained earnings	159,207	A, B, C	159,207	10,522	
Profit reserves from O.C.I.					

(follows)

€ thousand	31 December 2020				
	Amount	Possibility of use	Distributable portion	Summary of use made in the previous three years	
				Loss coverage	Other reasons
Valuation reserve for financial instruments	(20,062)		(20,062)		
Reserve for exchange differences	5,053		5,053		
Reserve for actuarial gains and losses	(9,958)		(9,958)		
Other reserves					
Greater cost paid, infragroup acquisitions	(5,652)		(5,652)		
IAS reserve	(719)		(719)		
Reserve for own shares	3,853	Guarantee of treasury shares	3,853		
Total	**370,801**		**370,801**		
Non-distributable share			102,277		
Residual distributable portion			268,524		

Key: A = *capital increase* – B = *to cover losses* – C = *distribution to Shareholders*

Reserve for treasury shares in portfolio – € 0 thousand

Pursuant to art. 2428 of the Italian Civil Code, there are 416,993 treasury shares in the portfolio, with a nominal value of € 5.16 each (€ 2,152 thousand in total) and correspond to 0.196% of the share capital. The reserve for treasury shares in portfolio amounted to € 3,853 thousand at 31 December 2020. The amount of the reserve coincides with the value of shares in the portfolio accounted for as a reduction of the Shareholders' equity in accordance with IAS 32.

21. Employee severance indemnity and other defined benefit plans – € 21,500 thousand

It decreased by € 1,822 thousand and reflects severance indemnities and other benefits to be paid subsequently to the performance of the work activity to employees. Within the obligations that make up this item, we need to highlight the defined contribution plans and defined benefit plans. The following table shows the composition:

€ thousand	31/12/2020	31/12/2019	Change
Benefits due at the time of termination of employment			
- Employee severance indemnity	6,737	6,714	23
- Extra months	1,470	1,500	(30)
- Long-Term Incentive Plans (LTIP)	1,600	1,945	(345)
Total	**9,807**	**10,159**	**(352)**
Post-employment benefits			
- Tariff subsidies	9,542	13,163	(3,622)
- "*Isopensione*" (early retirement)	2,151	0	2,151
Total	**11,693**	**13,163**	**(1,471)**
Total benefits	**21,500**	**23,323**	**(1,822)**

With regard to the calculation method, it must be noted that the benefits due at the time of termination of the employment relationship are determined according to actuarial criteria; with reference to post-employment benefits, the calculation is based on the "projected unit credit method" which is based on assessments that express corporate liability as the current average value of future benefits, pro rated based on the service provided by the employee at the time calculation with respect to that corresponding at the time of payment of the service.
The change is affected 1) by the provisions for the period, 2) by the outflows that occurred during the period and 3) by the decrease in the rate used for the valuation of the liabilities.
In particular, with regard to the economic-financial scenario, the discounting rate used for the valuation was of 0.77% against a rate used last year of 1.57%.
As required by paragraph 78 of IAS 19, the interest rate used to determine the current value of the obligation was determined with reference to the yield on the valuation date of securities of primary companies in the financial market to which Acea belongs and to the return on outstanding government bonds on the same date with a duration comparable to the residual duration of the collective of workers analysed; it must be noted that, due to internal consistency of assessment and alignment with the requirements of IAS 19, the same technical bases have been maintained for the various types of plans.

Furthermore, the parameters used for the evaluation are shown below:

	December 2020	December 2019
Discount rate	0.3%	0.8%
Revenue growth rate (average)	1.6%	1.6%
Long-term inflation	1.0%	1.0%

With regard to the measurement of the Group Employee Benefits (employee severance indemnity (TFR), monthly bonuses, tariff subsidies for current and retired staff) a sensitivity analysis was performed to assess the changes in the liability resulting from both positive and negative shifts of the rate curve (+ 0.5% shift / - 0.5% shift). The results of this analysis are summarised below.

Plan type	Discount rate	
€ thousand	+0.5%	-0.5%
Employee severance indemnities (TFR)	(320)	341
Tariff subsidies	(370)	396
Extra months	(72)	77
LTIP	361	340

In addition, a sensitivity analysis was carried out in relation to the age of the workforce, assuming one year less than the actual age.

Plan type	
€ thousand	-1 year of age
Employee severance indemnities (TFR)	(1)
Tariff subsidies	(1,010)
Extra months	60

Sensitivity analyses were not performed for other variables such as, for example, inflation rate.

22. Provision for risks and charges – € 16,203 thousand

The table below details the composition by nature and the changes compared to the end of the previous year:

€ thousand	31/12/2019	Uses	Provisions	Release for excess provisions	Reclassifications/ other changes	31/12/2020
Legal	2,274	(643)	1,509	(50)	(41)	3,049
Taxes	245	(71)	0	(145)	0	29
Investees	5,727	0	0	0	0	5,727
Contributory risks	728	0	6	0	0	734
Other risks and charges	872	0	0	0	41	913
Total provision for risks	**9,846**	**(714)**	**1,516**	**(195)**	**0**	**10,452**
Early retirements and redundancies	6,036	(4,466)	4,806	0	(625)	5,751
Total provisions for expenses	**6,036**	**(4,466)**	**4,806**	**0**	**(625)**	**5,751**
Total Provision for risks and charges	15,882	(5,180)	6,322	(195)	(625)	16,203

The main changes concerned:

- the provision for risks related to legal disputes was used for € 643 thousand for unfavourable judgements, and further provisions for the year of € 1,509 thousand were appropriated;
- the provision set aside for redundancy and mobility plans used for € 4,466 thousand as the relevant procedures have been completed. Additionally, € 4,806 thousand was set aside for the same plan, including future "*Isopensione*" retirement plans;
- the provision for tax litigation risks was used for € 71 thousand and released for € 145 thousand.

For further details, see the information provided in the section *Update on major disputes and litigation*.

23. Non-current borrowings and financial liabilities – € 3,710,655 thousand

The breakdown is as follows:

€ thousand	31/12/2020	31/12/2019	Change
Bonds	3,253,444	2,754,298	499,146
Medium/long-term borrowings	444,117	405,151	38,966
IFRS 16 financial payables	13,094	11,446	1,648
Total	3,710,655	3,170,895	539,760

Medium and long-term bonds

On 29 January 2020, Acea SpA completed the placement of a non-convertible bond for a total principal amount of € 500 million, maturing on 6 April 2029 and at a rate of 0.50%, under the € 4 billion Euro Medium Term Notes (EMTN) programme, with the Base Prospectus as last updated on 15 July 2019 and subsequently supplemented on 27 January 2020. The bonds are governed by English Law. Starting from the settlement date, the bonds are listed on the regulated market of the Luxembourg Stock Exchange, where the prospectus was filed.

Bonds amounted to € 3,253,444 thousand (€ 2,754,298 thousand at 31 December 2019) and refer to the following:

- **€ 597,669** thousand (including the long-term portion of the contract related costs) relating to the 10-year fixed rate bond issued by Acea in July 2014, as part of the Euro Medium Term Notes (EMTN) programme of € 1.5 billion. The bonds, which have a minimum denomination of € 100,000 and expire on 15 July 2024, pay an annual gross coupon of 2.625% and were placed at an issue price of 99.195%. The effective gross yield at maturity is equal to 2.718%, corresponding to a yield of 128 basis points above the 10-year midswap rate. The bonds are governed by English Law. The settlement date was 15 July 2014. Interest accrued during the period amounted to € 15,770 thousand;
- **€ 494,820** thousand (including the long-term portion of the costs attached to the contract) relating to the bond issued by Acea in October 2016 for the EMTN programme for a total amount of € 500,000 thousand with a 10-year fixed-rate duration. The bonds, which have a minimum denomination of € 100,000.00 and expire on 24 October 2026, pay an annual gross coupon of 1% and were placed at an issue price of 98.377%. The bonds are governed by English Law. The settlement date was 24 October 2016. Interest accrued during the period amounted to € 5,003 thousand;
- € 158,441 thousand relating to the Private Placement which, net of the fair value of the hedge, a negative € 22,749 thousand, amounted to **€ 181,190** thousand. This fair value is allocated to a specific equity reserve. A suitable exchange reserve includes the exchange rate difference, a negative € 6,649 thousand, of the hedged instrument calculated on 31 December 2020. The exchange rate at the end of 2020 stood at € 126.18 against € 121.77 as at 31 December 2019. Interest accrued during the period amounted to € 4,028 thousand. This is a private bond (Private Placement) for an amount of 20 billion Japanese Yen with a maturity of 15 years (2025). The Private Placement was underwritten entirely by a single investor (AFLAC). Coupons are paid on a semi-annual basis every 3 March and 3 September applying a fixed rate in Yen of 2.5%. At the same time, a cross currency transaction was carried out to transform the Yen currency into Euro and the Yen rate applied in a fixed rate in Euro. The cross currency transaction requires the bank to pay Acea, with a deferred semi-annual maturity, 2.5% out of 20 billion Japanese Yen, while Acea must pay the bank the coupons on a quarterly basis postponed to a fixed rate of 5.025%. The loan agreement and the hedging contract contain an option, respectively, for the investor and the agent bank, connected to the trigger rating: the debt and its derivative can be recalled in their entirety in the event that Acea's rating falls below the level of investment grade or in the event that the debt instrument loses its rating. At the end of the year the conditions for the possible exercise of the option did not occur;
- **€ 299,737** thousand (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February 2018 with a maturity of 5 years at a variable rate (Euribor 3 months +0.37%) under the EMTN programme. Interest accrued during the period amounted to € 81 thousand;
- **€ 690,597** thousand (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 1 February, with a fixed rate of 1.5% for the duration of 9 years under the EMTN programme. Interest accrued during the period amounted to € 10,516 thousand;
- **€ 494,098** thousand (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 23 May 2019, with a fixed rate of 1.75% for the duration of 9 years under the EMTN programme. Interest accrued during the period amounted to € 8,764 thousand;
- **€ 495,333** thousand (including the long-term portion of the costs associated with the stipulation) relating to the bond loan issued by Acea on 29 January 2020, with a rate of 0.50% for the duration of 9 years under the EMTN programme. Interest accrued during the period amounted to € 2,259 thousand.

The following is a summary including the short-term portion:

€ thousand	Gross payables (*)	FV hedging instrument	Interest accrued (**)	Total
Bonds:				
Issued in 2014	596,774	0	7,336	604,110
Private Placement issued in 2014	158,423	22,749	655	181,827
Issued in 2016	493,802	0	945	494,747
Issued in 2018	988,442	0	5,955	994,397
Issued in 2019	493,276	0	5,346	498,622
Issued in 2020	494,705	0	1,849	496,554
Total	**3,225,422**	**22,749**	**22,086**	**3,270,257**

* Including amortised cost.
** Including rates on hedging instruments

Medium/long-term borrowings

These amount to € 444,117 thousand and show a total reduction of € 38,966 thousand and represent the payable for the portion of the instalments not yet repaid at 31 December 2020 and expiring beyond twelve months.

The main mortgages, whose values as at 31 December 2020 are shown below including the short-term portions amount to a total of € 504,359 thousand and are described below:

- loan stipulated on 25 August 2008 for an amount of € 200,000 thousand for the investment plan in the water sector (Acea Ato 2) with a duration of 15 years. This loan at 31 December 2020 amounted to € 37,494 thousand. The first tranche of € 150,000 thousand was disbursed in August 2008 and the interest rate is equal to the 6-month Euribor plus a spread of 7.8 basis points. In 2009, a second tranche was disbursed for an amount of € 50,000 thousand, which provides for an interest rate equal to the 6-month Euribor plus a spread of 0.646%, with a maturity of 15 June 2019. The latter was extinguished early in March 2018;

- loan agreement for an initial amount of € 100,000 thousand, entered on 31 March 2008 expiring on 21 December 2021. The rate applied by the bank is a variable rate and the instalments are six-monthly and repayment will be made in half-yearly instalments; the first was paid on 30 June 2010. The residual amount of the loan at 31 December 2020 amounts to € 8,649 thousand. The risk of fluctuations in interest rates associated with the loan was hedged through the subscription of an Interest Rate Swap with the aim of transforming the cost of the underlying loan from variable to fixed. The swap follows the performance of the underlying depreciation plan. Based on IAS 39, the company has assessed the effectiveness of the hedging instrument according to the hedge accounting method based on the cash flow hedge model. The test result is 98.93% effective, which means that no portion is recorded in the Income Statement that reflects the ineffectiveness of the instrument; in the appropriate equity reserve, the negative fair value of the hedging instrument equal to € 315 thousand was recorded;
- loan contracted by the EIB on 23 December 2014 of € 200,000 thousand, aimed at supporting the needs of the multi-year investment plan in the water area. The interest rate applied is equal to the 6-month Euribor with a spread of 0.45% with maturity in June 2030. The residual amount of the loan at 31 December 2020 amounts to € 158,333 thousand;
- financing contracted with the EIB on 2 May 2017 for € 200,000 thousand as part of the Network Efficiency III Project. The interest rate is variable. The loan repayment plan envisages a period of pre-amortisation up to 15 June 2021 and amortisation in constant semi-annual instalments up to 31 December 2030. The residual amount of the loan at 31 December 2020 amounts to € 199,974 thousand;
- on 8 April 2020 a new € 100,000 thousand credit line was issued by UBI Banca, maturing on 8 April 2022. Repayment is in bullet form, on the final maturity date.

The table below provides details of the loans by type of interest rate and by maturity. It must be noted that the table also shows the short-term portion by 31 December 2021 of € 60,243 thousand.

Financing

€ thousand	Total residual debt	By 31/12/2021	Due from 31/12/2021 to 31/12/2025	After 31/12/2025
fixed rate	99,908	(65)	99,973	0
floating rate	395,802	51,658	169,150	174,993
floating rate cash flow hedge	8,649	8,649	0	0
Total	**504,359**	**60,243**	**269,123**	**174,993**

For information on financial instruments and in particular on fair value at the balance sheet date please refer to the paragraph *Supplementary information on financial instruments and risk management policies*.

IFRS 16 financial payables

This item includes the financial payable deriving from the impact of the first-time adoption of IFRS 16, the long-term portion of which amounts to € 13,094 thousand. On the other hand, the short-term portion amounts to € 5,137 thousand. The cash flows broken down by maturity to which Acea is potentially exposed are shown below:

	Within 12 months	Within 24 months	Within 5 years	Residual debt
IFRS 16 liabilities	5,137	9,567	17,626	18,231

24. Current liabilities – € 694,451 thousand

These amounted overall to € 694,451 thousand and decreased overall by € 186,051 thousand. Note that the figures as at 31 December 2019 include reclassifications carried out for better representation and comparison with the previous period.

€ thousand	31/12/2020	31/12/2019	Change	Change %
Financial payables	429,492	662,536	(233,044)	(35.2%)
Trade payables	224,036	182,192	41,844	23.0%
Tax payables	13,969	814	13,155	n.s.
Other current liabilities	26,953	34,959	(8,006)	(22.9%)
Current liabilities	**694,451**	**880,502**	**(186,051)**	(21.1%)

26.a – Financial payables – € 429,492 thousand

These fell by € 233,044 thousand and are composed as follows:

€ thousand	31/12/2020	31/12/2019	Change
Payables for short-term bank credit lines	90,152	0	90,152
Payables for bank loans	60,243	39,998	20,244
Short-term bonds	16,813	453,390	(436,577)
Payables to the Parent Company Municipality of Rome	129,375	77,225	52,150

(follows)

€ thousand	31/12/2020	31/12/2019	Change
Payables to subsidiaries and associates	125,953	85,471	40,482
Payables to third parties	1,819	1,817	2
IFRS 16 financial payables within one year	5,137	4,635	502
Total	429,492	662,536	(233,044)

Payables for short-term bank credit lines refer mainly to three disbursements occurring in 2020, for a total of € 90,000 thousand.

The € 20,244 thousand increase in payables for bank loans refers to the reclassification of the first instalment within the short-term position relative to the repayment plan for the BEI loan obtained on 2 May 2017, for € 200,000 thousand, as part of the Network Efficiency III Project.

The decrease in bonds is attributable for € 437,812 thousand to the full repayment of the bond loan issued by Acea in March 2010, with a duration of 10 years and maturing on 16 March 2020, extinguished on February 2020.

Financial payables relative to Roma Capitale increased by € 52,150 thousand, mainly due to recognition of the payable for share dividends for Acea which accrued in 2019 for € 84,717 thousand and the use of some of the dividends which accrued in 2018 to partially offset receivables (€ 77,114 thousand).

The changes concerning payables to subsidiaries and associates mainly relate to centralised treasury transactions, which increased by € 43,146 thousand due to the greater financial exposure recorded during the year by some Group companies.

The following is a breakdown by type of debt due to investee companies:

€ thousand	31/12/2020	31/12/2019	Change
Payables for cash pooling relationships	125,721	82,574	43,146
Other financial payables	233	2,897	(2,664)
Total	125,953	85,471	40,482

This item includes the short-term portion of IFRS financial payables, equal to € 4,635 thousand.

26.b – Trade payables – € 224,036 thousand

Results are as follows. Note that the figures as at 31 December 2019 include reclassifications carried out for better representation and comparison with the previous period.

€ thousand	31/12/2020	31/12/2019	Change
Payables to suppliers	118,327	107,672	10,655
Payables to the Parent Company	212	28	184
Payables to subsidiaries and associates	105,497	74,492	31,004
Trade payables	224,036	182,192	41,844

Payables to third-party suppliers show an increase of € 10,655 thousand and the balance is shown below:

€ thousand	31/12/2020	31/12/2019	Change
Payables due to invoices received	75,134	60,504	14,630
Payables due to invoices to be received	43,193	47,168	(3,975)
Total	118,327	107,672	10,655

With regard to payables to suppliers for invoices received for € 75,134 thousand, it must be noted that the expired component amounts to € 17,383 thousand, the remaining amount is due within the next twelve months.

Relative to relations with **Subsidiaries and associates**, note a € 31,004 thousand increase, essentially relative to *areti* for fees relative to the Public Lighting service. Note that the figures as at 31 December 2019 include reclassifications carried out for better representation and comparison with the previous period, as credit notes to be issued were moved to the assets. Details by counterparty are provided in the following table:

€ thousand	31/12/2020	31/12/2019	Change
Acea Ato 2	719	646	73
Acea Ato 5	177	102	75
Acea Energia SpA	9,102	6,564	2,538
Acea Produzione SpA	56	20	36
Areti SpA	94,683	65,751	28,932

(follows)

€ thousand	31/12/2020	31/12/2019	Change
Acea Elabori SpA	85	42	43
Acea Ambiente S.r.l.	212	21	191
Acque SpA	47	47	0
Other	417	1,300	31,004
Total	**105,497**	**74,492**	**62,892**

26.c – Tax payables – € 13,969 thousand

These refer to tax payables due to for IRES and IRAP, totalling € 13,969 thousand, consisting entirely in 2020 of IRES payables for all companies participating in Group tax consolidation. Note that the figures for 31 December 2019 were reclassified to improve comparability of data. Until 2019, this item also included tax consolidation payables to parent companies.

26.d – Other current liabilities – € 26,953 thousand

These are composed as follows. Note that the figures for 31 December 2019 were reclassified to improve comparability of data. Additionally, tax consolidation payables to parent companies in 2019 were classified among tax payables.

€ thousand	31/12/2020	31/12/2019	Change
Payables to social security institutions	3,502	3,605	(103)
Accrued liabilities and deferred income	238	232	6
Tax consolidation payables to subsidiaries	3,207	11,441	(8,234)
Payables due to personnel	10,365	11,940	(1,575)
Payables to Equitalia	61	61	0
Other payables	9,580	7,680	1,900
Total	**26,953**	**34,959**	**(8,006)**

For greater clarity, it must be noted that payables with a due maturity of more than five years are not recorded in the Financial Statements, other than those already indicated with respect to the item "Loans".

INFORMATION ON RELATED PARTIES

ACEA AND ROMA CAPITALE

The controlling entity holds an absolute majority with 51% of Acea's shares.
There are commercial relations between Acea and Roma Capitale, as the company provides services to the Municipality with regard to maintenance and upgrading of Public Lighting systems.
With regard to the Public Lighting service, we inform you that it is provided exclusively in the Rome area. As part of the thirty-year free grant issued by the Municipality of Rome in 1998, the economic terms of the services subject to the concession are currently governed by a service contract between the parties in force since May 2005 and until the concession expires (31 December 2027), pursuant to the supplementary agreement signed between Acea and Roma Capitale on 15 March 2011 modified in June 2016 with a private deed aimed at regulating commitments and obligations deriving from the implementation of the LED Plan.
The additions of the supplementary agreement of 2011 concern the following aspects:

- alignment of the duration of the service contract to the expiry of the concession (2027), given the mere accession function of the contract to the agreement;
- periodic updating of the fee components related to electricity consumption and maintenance;
- annual increase in the lump-sum payment for the new lighting points installed.

Furthermore, the investments required for the service may be 1) applied for and funded by the Municipality or 2) financed by Acea. In the former case, such works will be paid based on a price list agreed by the parties (and subject to review every two years) and will result in a percentage decrease in the ordinary fee. In the latter case, the Municipality is not bound to pay a surcharge; however, Acea will be awarded all or part of the savings expected in both energy and economic terms according to pre-established methods.
On the due or early termination date Acea is entitled to an indemnity corresponding to the residual book value of the assets that will be paid by the Municipality or the incoming operator upon express provision of this obligation in the call for tenders for the selection of the new operator.
Finally, the contract establishes a list of events which represent just cause for early revocation of the concession and/or termination of the contract by the parties. Of these events, that relative to newly arising requirements linked to the public interest appears relevant, expressly included under that established by article 23-*bis* of Italian Decree Law 112/2008, abrogated after the referendum of 12 and 13 June 2011, which determines for Acea the right to an indemnity commensurate with the discounted product of a defined percentage of the annual contractual amount and the number of years remaining until the natural expiry of the concession.
The supplementary agreement, exceeding the materiality thresholds defined by the Company in relation to Transactions with Related parties, was submitted to the analysis of the Board of Directors and obtained approval at the meeting on 1 February 2011, after obtaining the favourable opinion by the Committee for Transactions with Related parties.
Reciprocal claims and liabilities – with reference to payment methods and terms – are governed by individual contracts:

a. for the Public Lighting service contract the payment is expected within sixty days from the submission of the invoice and, in the event of delayed payment, the legal rate is applied for the first sixty days and then the default rate as established from year to year by a special decree of the Minister of Public Works in agreement with that of the Minister of Economy and Finance;
b. for all other service contracts the payment deadline for Roma Capitale with reference to service contracts is sixty days from receipt of the invoice and in the event of late payment, the parties have agreed to apply the official discount rate in force over time.

The private agreement signed in June 2016 between Acea and Roma Capitale regulated commitments and obligations deriving from the implementation of the LED Plan modifying art. 2.1 of the Supplementary Agreement signed in 2011.
More specifically, the agreement provides for the installation of 186,879 fittings (which became 182,556 at the request of Roma Capitale), in the number of 10,000 per month starting thirty days after the signing of the agreement; the price was set at € 48 million for the entire LED Plan. The amount is to be paid in the amount of 10% in advance and the remaining part on the basis of specific bimonthly progress certificates, which must be paid by Roma Capitale within thirty days following the closing of the progress certificate for 80%, and within fifteen days after verification of the same progress certificate for the remaining 15%. The agreement also provides for incentive/penalty mechanisms based on higher/lower than planned installations every two months and for a reduction of the fee paid by Roma Capitale to the extent of 50% of the economic value of Energy Efficiency bonds due to Acea for the LED Project.
As a result of the implementation of the LED Plan, the parties partially modified the price list and the composition of the fee for the management of the service.
New constructions and investments contribute to the increase in the lump-sum payment due to the annual rate calculated according to the mechanism of tax depreciation envisaged for the plants underlying the specific intervention and to the percentage reduction of the ordinary rent due from Roma Capitale whose amount is defined in the technical-economic project document.
A variable interest rate is envisaged to remunerate the invested capital.
With regards the extent of the relationship between Acea and Roma Capitale, reference must be made to what has been explained and commented on receivables and payables to the Parent Company in note no. 19.c of this document.

We can inform you finally that, as regards the Public Lighting service, following the opinion given by the AGCM (Antitrust Authority) in Bulletin no. 49 of 14 December 2020, Roma Capitale began checking the conditions of congruity and economic convenience of the performance terms pursuant to the service contract between the Administration and Acea SpA (and for it areti) compared with the terms pursuant to the CONSIP – Luce 3 Convention and, in addition, on the basis of the positions expressed by the AGCM in the said opinion, expressed perplexities on the legitimacy of the award to Acea SpA itself. On 8 February 2021, with a note ref. DG 1585/2021, Roma Capitale communicated the results of the said checks, affirming definitively "the congruity and convenience of the economic terms currently in being with respect to the qualitative and economic parameters of the CONSIP – Luce 3 Convention" and confirming "the correctness of the prices applied for the Public Lighting service", overcoming definitively all reserves on the congruity of the prices charged in the context of the contractual relationship in being between Roma Capitale and Acea SpA. In the same note, the Administration therefore ordered the restart of the procedures for payment of Acea's ascertained receivables in relation to the service contract. We can note that the said communication regards the correctness of the prices charged, without affecting the Administration's intention, already manifested, to terminate the relationship with Acea to call for tenders and thus make a new award for the Public Lighting service.

From the point of view of economic relations, instead, the costs and revenues at 31 December 2020 are summarised below with reference to the most significant transactions.

	Revenues		Costs	
€ thousand	2020	2019	2020	2019
Public Lighting service contract	29,447	34,163	0	0
Revenue from real. plants on request	4,218	6,468	0	0
Total	**33,666**	**40,631**	**0**	**0**

ACEA AND THE ROMA CAPITALE GROUP

Even with companies, special companies or institutions controlled by Roma Capitale, Acea has commercial relations.
The following table shows information on entries with the companies of the Roma Capitale Group.

Roma Capitale Group	Payables	Costs	Receivables	Revenues
€ thousand	31/12/2020	31/12/2020	31/12/2020	31/12/2020
AMA SpA	995	711	28	0
ATAC SpA	0	26	0	0
Fondazione Cinema Per Roma	100	122	0	0
Fondazione Musica Per Roma	0	48	0	0
Le Assicurazioni Di Roma	0	30	0	0
Total	**1,095**	**937**	**28**	**0**

ACEA AND ITS SUBSIDIARIES

Financial reports

Acea SpA, in its function as an industrial holding company, defines the strategic objectives at the Group and subsidiary level and coordinates its activities.
As part of the centralised management of financial services, the Parent Company Acea has long since adopted a Group inter-company treasury system, including an inter-company finance relationship, making it available to many Group companies with which a special multi-year inter-company finance contract was signed.
The intercompany finance contracts were renewed on 1 January 2020. Based on this contract, Acea makes available a medium-term revolving loan, known as the "Intercompany Finance Line", up to a predetermined credit limit for financing the financial needs for 1) working capital requirements and 2) the execution of investments.
In addition, Acea makes credit lines available to its own companies for signature, for an amount equal to the Plafond for bank guarantees or through the direct issuing of corporate guarantees for an amount equal to the Plafond for Corporate Guarantees.
The operation of this contract provides that in a permanent and daily manner each company, holder of specific peripheral bank current accounts, daily credit or debit the Parent Bank's current account to zero the balance on its current accounts.
In the case of a daily intercompany balance due by currency, the companies pay interest expense to the Parent Company calculated, for each year, on the basis of a market interest rate, defined as the sum of: cost of funding, the average weighted interest rate paid by the Acea Group on the market the previous year and incremental risk, the risk differential between the Acea Group and individual companies participating in the contracts. For 2020, the interest rate applied falls between a minimum of 2.82% and a maximum of 4.04%, while in 2019, the rate applied fell between a minimum of 4.62% and a maximum of 5.78%.
In the case of a daily intercompany credit balance by currency, Acea recognises calculated interest rates for each quarter by applying the interest rate resulting from the arithmetic average of the "3 month EURIBOR" rates (source Bloomberg) in the previous quarter.
Contractual terms applied are, with the same credit standing and type of financial instrument, in line with those resulting from the reference market, also supported by the evidence of a benchmark developed by a leading consulting firm.

The new contracts saw revisions made to the following conditions:

- the duration is 30 years or until the expiry of concessions for companies with regulated business (Acea Ato 2 and *areti*);
- revision of the total rate calculation method for the use of the Intercompany Finance Line;
- revision of the method for calculating the rates applied on bank and corporate guarantees;
- regular annual update of economic conditions based on the previous year's Financial Statements.

Reports of a commercial nature

Acea also provides subsidiaries and associated companies with administrative, financial, legal, logistics, management and technical services in order to optimise the resources available within the Company and to optimally use existing know-how in a logic of affordability.
These services are governed by specific service contracts.
As of 1 January 2020, and for three years, the new service contracts for 2020-2022 took effect. The methodology used to determine the unit price is the Cost Plus Method, which calls of the identification of a shared base cost, to which is applied a mark-up on internal costs (subject to market benchmarks by a major consulting company) and, subsequently, divided up between the various beneficiaries of the services through allocation keys which are compliant and consistent, in line with what third parties would do. These contracts are compliant for regulatory purposes and of the

Organisation, management and control model and envisage SLAs (Service Level Agreements) with a view to improving the level of service offered, to relate to relevant KPIs (Key Performance Indicators).

As part of the Template project, Acea and the companies in the area approved a contract that allows the implementation of the main technological development initiatives (cross-cutting and business) through the communion institute. The aforementioned contract contains rules of an economic-financial nature and of participation in the communion.

Acea also provides operating services, application management and maintenance related to accessing the Template project regulated by a specific contract.

The contractual terms applied are, for the same type of service rendered, in line with those resulting from the market.

ACEA AND THE MAIN COMPANIES OF THE CALTAGIRONE GROUP

As of the end of the 2020 financial year, there are no financial transactions with the companies of the Caltagirone Group and Acea SpA.

ACEA AND THE MAIN COMPANIES OF THE SUEZ ITALIA GROUP

As of the end of the 2020 financial year, there are no financial transactions with Suez Italia SpA and Acea SpA.

The table below shows the impact of transactions with related parties on the statement of financial position, the Income Statement and the cash flow statement.

IMPACT ON THE STATEMENT OF FINANCIAL POSITION

€ thousand	31/12/2020	Related parties	Impact	31/12/2019	Related parties	Impact	Change
Financial assets	223,714	197,480	88.3%	207,998	226,545	108.9%	(29,065)
Trade receivables	136,552	135,886	99.5%	98,605	97,896	99.3%	37,990
Other current assets	56,458	32,221	57.1%	40,577	10,128	25.0%	22,093
Current tax assets	32,175	0	n.s.	10,766	0	n.s.	0
Current financial assets	3,214,004	2,984,036	92.8%	2,686,542	2,539,759	94.5%	444,277
Financial payables	(429,492)	(255,328)	59.4%	(662,536)	(164,465)	24.8%	(90,863)
Payables to suppliers	(224,036)	(106,953)	47.7%	(182,192)	(927)	0.5%	(106,025)
Tax payables	(17,177)	0	n.s.	(12,255)	0	n.s.	0
Other current liabilities	(26,953)	(3,273)	12.1%	(34,959)	(11,469)	32.8%	8,196

IMPACT ON THE ECONOMIC RESULTS

€ thousand	31/12/2020	Related parties	Impact	31/12/2019	Related parties	Impact	Change
Revenue from sales and services	152,205	151,974	99.8%	152,318	152,207	99.9%	(234)
Other revenue and income	12,589	8,458	67.2%	30,916	9,319	30.1%	(861)
Costs of materials and overheads	16,062	50,313	313.2%	13,553	59,810	441.3%	(9,497)
Financial income	99,268	98,623	99.3%	140,802	139,097	98.8%	(40,473)
Financial costs	(66,108)	(3,615)	5.5%	(72,312)	(58)	0.1%	(3,556)
Income/(costs) from equity investments	204,179	204,179	100.0%	181,634	181,634	100.0%	22,546

IMPACT ON THE CASH FLOW STATEMENT

Cash flow statement	31/12/2020	Related parties	% Impact	31/12/2019	Related parties	% Impact	Change
Cash flow from operating activities	(77,209)	(37,746)	48.9%	(63,273)	(79,667)	125.9%	7,573
Cash flow of asset investment/ disinvestment	(287,524)	619,394	-215.4%	(310,685)	(290,541)	93.5%	(545,514)
Cash flow from financing activities	95,093	447,460	470.5%	83,551	26,812	32.1%	(204,314)

LIST OF TRANSACTIONS WITH RELATED PARTIES

During 2020, there were no significant transactions with related parties.

UPDATE ON MAJOR DISPUTES AND LITIGATION

ACEA SPA – SMECO

With a writ served in the autumn of 2011, Acea was summoned to court to answer for alleged damages that its alleged non-compliance with unproven and non-existent obligations that are assumed to have been part of the Shareholders' agreement regarding the subsidiary A.S.A. – Acea Servizi Acqua, by its minority Shareholders and their respective Shareholders. The petition is for more than € 10 million.
With sentence no. 17154/15 of 17 August 2015, the Court rejected the application in its entirety and sentenced the parties jointly and severally to the reimbursement of Acea for legal expenses.
On 1 October 2015, SMECO lodged an appeal to the 2nd Section of the Court of Appeal of Rome. After a number of postponements, the hearing to clarify the conclusions was set for 3 November 2020. The decision has not yet been issued.

ACEA SPA – MILANO '90

This issue concerns the failure to pay sums due for the balance of the sale price of the area in the Municipality of Rome with access from via Laurentina no. 555, formalised with a deed dated 28 February 2007 and with a subsequent supplementary deed of 5 November 2008. With the supplementary deed, the parties agreed to change the fee from € 18 to € 23 million, while eliminating the earn out, setting 31 March 2009 as the payment deadline.
Given the purchaser's failure to act, the procedure to collect the amounts due was initiated by preparing a notice pay addressed to Milano '90 and through application for an injunction order which, on 28 June 2012, was granted in a temporarily enforceable form. Therefore, in November 2012, Acea served a garnishment order to the company Milano '90 for the forced recovery of the amounts claimed.
Milano '90 opposed the aforementioned injunction – also requesting the condemnation of Acea for the restitution of sums paid as a price and compensation for damages – obtaining the suspension of its provisional execution. Consequently, the enforcement procedure was in turn suspended.
By judgement no. 3258, published on 13 February 2018, the Court of Rome rejected the opposition and confirmed the court order in full, sentencing Milano '90 to pay for the costs of the dispute.

Judgement of appeal

On 26 April 2018, Milano '90 filed an appeal against the above judgement. As a result of the oral hearing, with an order dated 25 October 2018 the Court of Appeal rejected the request for suspension. Specification of the conclusions was most recently postponed to 25 June 2021.

Executive procedure

Following the favourable first instance ruling, on 27 March 2018 Acea filed the appeal for the resumption of the enforcement procedure against Milano '90 and the garnishment order and the hearing was postponed to 9 October 2018 for the appearance of the parties and the prosecution. As a result of this hearing, the Judge ordered a postponement for the possible assignment of the foreclosed sums pending the decision of the Court of Appeal on the injunction of the contested judgement. The hearing was last adjourned to 27 November 2019 and the judge put in place conditions.
With order dated 11 February 2020 the enforcement judge cancelled the previous conditions and ordered the allocation of € 6,445,687.75 plus legal costs and interest in favour of Acea.
Quite unexpectedly, following the service of the order, on 12 March 2020 the seized third party filed an appeal against the enforcement, requesting a declaration of nullity of the order for the allocation of the seized sums.
In an order dated 24 March 2020 and without a hearing, the Enforcing Judge ordered the suspension of the enforceability of the assignment order and set a hearing on 24 February 2021 to decide on whether to confirm, amend or revoke the measure. The judgement has not yet been issued.

ACEA SPA – TRIFOGLIO S.R.L.

The complex dispute consists of a case filed as a plaintiff and also a case appearing as a defendant, joined in 2015 before the Judge with whom the case filed as a plaintiff was pending.

Case filed as a claimant: this issue concerns the breach by Trifoglio of its obligation to pay the balance of the amount due (€ 10.3 million), pursuant to the sale contract regarding the so-called "Autoparco property", which should have been paid on 22 December 2011.
In consideration of Trifoglio's breach, a notice was served aimed at signing a deed to voluntarily terminate the sale agreement of 22 December 2010, and then to file a claim before the Court of Rome, pursuant to art. 702-*bis* of the Code of Civil Procedure. ATAC Patrimonio filed a claim for the termination of the sale agreement of 22 December 2010 for the portion for which it is responsible.

Cases as a defendant: Trifoglio has notified Acea and ATAC Patrimonio a writ of summons aimed at assessing the invalidity of the deed of purchase and sale and recognition of compensation for damages in the amount of approximately € 20 million.

By judgement no. 11436/2017 of 6 June 2017, the Court of Rome declared the nullity of the contract of purchase and sale, substantively upholding the petition of Acea aimed at having the contract wound up with Trifoglio and recovering ownership of the area, arranging for the return to Trifoglio of the deposit-price received (€ 4 million); it also rejected the request for compensation for damages made by Trifoglio and excluded any liability of Acea with regards to the truthfulness of the contractual guarantees offered to Trifoglio. On 8 August 2017 Trifoglio filed an appeal, with a hearing for conclusions last postponed to 17 June 2021.

ACEA SPA – FORMER COS RULINGS

The COS dispute concerns the ascertainment of the illegality of the contract between ALMAVIVA Contact (formerly COS) and Acea and the consequent right of its workers to be recognised as having a subordinate employment relationship with Acea.
It should be noted that the majority of the cases in which Acea was unsuccessful were settled, and that of the six claimants only two were brought before the Court of Cassation by Acea to assess the existence of a claim (i.e. the assessment of the right to establish a relationship), both heard on 4 April 2019 by the Council. These judgements were settled by dismissal orders – made on 2 and 10 July 2019 – of Acea's application. The establishment of the employment contract between Acea and the opposing parties as from 2004 is therefore confirmed.

The workers – who have so far claimed the differences in pay for lack of performance – have therefore started to work concretely at Acea800 as of 3 February 2020 following a posting to this company, despite having established the relationship with Acea, in execution of the court order.
Based on the judgements concerning the an debeatur, the six workers who won their cases (i.e. with whom a subordinate employment relationship with Acea was established) have over time introduced judgements quantifying their claims, requesting the payment of the wages due as a result of the established relationship and regarding different periods of accrual of the alleged claims, which have led to disagreements that are pending at various levels of jurisdiction. In detail, with regard to the number of cases currently pending at the Court of Cassation, a first judgement was settled with a sentence in favour of Acea on 31 October 2018, against which the counterparties appealed for revocation by means of a document served on 30 April 2019. One other quantification judgement is still pending with the Court of Justice.
Finally, another quantification judgement is still pending with the Rome Court of Appeals, regarding pay differences accrued between 2010 and 2014, proposed by the same workers. The case was suspended and during the most recent hearing, on 25 June 2018, the Court of Appeal deemed it appropriate to suspend it pending the rulings of the Court of Cassation on the an debeatur of the claim (see above), which took place in July 2019 and as a result of which the case has been resumed and is currently pending with a hearing in March 2020, later postponed to December 2020.
Postponed to March 2021, in order to allow for negotiations with the aim of a possible settlement. Further, in December 2020, a settlement was reached with one of the six counterparts.
Most recently, two of the workers filed a quantification judgement relative to pay differences between 2014 and 2019. Challenges to the injunction orders issued in favour of the two workers are currently in course, with the hearing of appearance set for 14 June 2021.

ACEA SPA AND ARETI SPA – MP 31 S.R.L. (FORMERLY ARMOSIA MP S.R.L.)

This is a challenge to the Injunction Order issued by the Court of Rome, docket no. 58515/14, issued against *a*reti for the amount of € 226,621.34, requested by Armosia MP by way of lease payments for the months of April, May and June 2014 in relation to the property in Rome – Via Marco Polo, 31. The injunction was declared provisionally enforceable by order of 8 July 2015.
In the hearing on 17 February 2016, the Judge adjoined this case with the other pending before the Court of Rome, taken by Acea and *a*reti (transferee of the lease contract) in order to obtain the termination of the lease contract. In this latter case, MP 31 has also filed an unconventional remand for compensation for the damages incurred in consideration of the degrading condition of the building when it was released by *a*reti. With a sentence dated 27 November 2017 the Court upheld the application of MP 31 against *a*reti, condemning it to the payment of the previous rent in the amount of € 2,759,818.76 plus interest from the individual deadlines, as well as the payment of the rent up to contract expiry (29 December 2022). As a result, there are no further charges to the company.
Acea filed an appeal, served on 2 January 2018.
The appeal hearing was initially set for 16 April 2020 and then postponed to 16 June 2022.

ACEA SPA AND ACEA ATO 2SPA – CO.LA.RI

With a writ of summons served on 23 June 2017, the Consortium Co.La.Ri. and E. Giovi S.r.l. – respectively the manager of the Malagrotta landfill (prov. Rome) and the executor – summoned Acea and Acea Ato 2 to obtain payment for the portion of the tariff for accessing the landfill, to be allocated to cover the thirty-year costs to manage the same, as established in Italian Legislative Decree 36/2003, alleged to be due for the depositing of waste during the contractual period from 1985-2009.
The main request stands at over € 36 million for the entire period of contract validity. Subordinately, in the event that the law disposing the tariff is considered by the judge to be applicable retroactively, the plaintiffs request the recognition of the right to receivables of approximately € 8 million for the period March 2003 - 2009, and the ascertainment, by expert appraisal, of the receivables for the previous period 1985-2003.
The first hearing, initially set for 23 February 2018, was postponed to 8 October 2018 to add the dispute against the Optimal Territorial Area Authority 2 Central Lazio – Rome. As a result of this hearing, the judge granted the terms under art. 183 of the Italian Code of Civil Procedure and scheduled the subsequent preliminary hearing for 28 March 2019, then postponed until 12 November 2019. On that date the judge set the hearing for conclusion, most recently postponed to 22 March 2021, previously set for 27 October 2020.

GALA'S CITATION TO *A*RETI, ACEA ENERGIA SPA AND ACEA SPA

By means of a summons served in March 2018, Gala requested the Court of Rome to declare the invalidity of some clauses of the transport contract stipulated with *a*reti in November 2015 and the consequent invalidity/ineffectiveness of the termination of the contract by *a*reti, ordering the latter to pay the corresponding damage, for a total of about € 200 million.
Gala also requested that the behaviour of *a*reti and other defendant companies, including Acea SpA, be declared acts of unfair competition, condemning them to pay the corresponding damages.
The companies of the Acea Group that were sued acted within the terms of the law, denying the opposing claims and requesting their rejection.
In addition, as a counter-claim, *a*reti has requested to declare the contract legitimately terminated, as well as to ascertain and declare the non-fulfilment of Gala of the payment and guarantee obligations assumed under the transport contract with consequent order to pay the related amount, plus interest and without prejudice to the additional amounts being accrued.
The judgement is currently pending before the 17th civil section of the Court of Rome and on 5 November 2018 the Designated Judge assigned to the parties the terms for the presentation of their briefs pursuant to art. 183, paragraph 6 of the Code of Civil Procedure starting from 9 December 2018 and set the hearing for 12 May 2021 for the clarification of the conclusions, without prejudice to any preliminary investigation to be carried out.
With decree of 13 June 2019 the Investigating Judge ordered an assessment by a court-appointed expert. The draft of the expert witness was submitted on 17 March 2020, with a deadline for comments on 13 July 2020. The hearing to examine the expert's report is set for 24 September 2020.
In view of the hearing for examination of the technical expert's findings, Gala filed a request for an appeal to the European Union Court of Justice. After this hearing, on 1 October 2020, the Judge granted a deadline for the filing of briefs and requests for clarifications and responses, reserving all other decisions.
With an order dated 16 November 2020, the Judge then determined the case should not be sent to the Court of Justice and, deeming the case ripe for a decision, confirmed the already set hearing for conclusions on 12 May 2021.

ACEA SPA – MUNICIPALITY OF BOTRICELLO

In 1995, the Municipality of Botricello transferred management of its Integrated Water Service to a temporary grouping of businesses, which later established itself as a consortium, known as Hydreco S.c.a.r.l.. In 2005, the Municipality sued, in the Court of Catanzaro, the company Hydreco S.c.a.r.l. and its component companies, including Sigesa SpA (which transferred its rights to Acea SpA), to obtain reimbursement of the fees due for administration for the period from 1995-2002, quantified in the amount of € 946,091.63, plus damages, interest and revaluation.

The companies disputed the Municipality's claim and filed a counter-claim for non adjustment of tariffs and loss of earnings due to the early revocation of the service. During the case an expert was called upon, who recognised a balance due to the Municipality of around € 230,000.00. Nonetheless, the Court, with judgement 1555 of 29 October 2015, ordered the companies to jointly pay € 946,091.63, plus interest and revaluation of the payable accrued, rejecting the counter-claims. The losing parties filed separate appeals and, with an ordinance of 27 March 2018, the Catanzaro Court of Appeals suspended execution of the appealed judgement, based on the validity of the arguments made in the appeal document. However, with judgement 677 of 6 June 2020, the appeals were rejected.

Acea filed an appeal with the Court of Cassation. The date for the hearing has not yet been set.

PROCEEDING AGCM A/513

On 8 January 2019, the Antitrust Authority notified Acea SpA, Acea Energia SpA and *a*reti SpA of the final order for Proceeding A/513.
With this order, the Authority ruled that the aforementioned Group companies had committed an abuse of a dominant position – qualified as very serious and of duration quantified in 3 years and 9 months – consisting in the adoption of a broad exclusionary strategy realised through the illegitimate use of a series of prerogatives possessed solely by virtue of its position as an integrated operator in distribution, in order to compete with its competitors in the acquisition of electricity sales contracts in Free Market conditions.
In view of the gravity and duration of the infringement, the Authority ordered Acea SpA, Acea Energia SpA and *a*reti SpA to pay an overall pecuniary administrative fine of € 16,199,879.09.
Fully convinced of the illegitimacy of the measure imposed, two administrative appeals were filed before the Lazio Regional Administrative Court, one brought by Acea Energia and the other by Acea SpA. The hearing on the merits of both judgements was held on 2 October 2019, and on 17 October 2019 the appeals were upheld with separate sentences and the fine was therefore annulled.
With appeals served on 17 January 2020, the AGCM filed an appeal before the Council of State and is awaiting the setting of a hearing.
The Directors maintain that the settlement of ongoing disputes and other potential disputes should not create any additional charges for Acea, with respect to the amounts set aside, which represent the best estimate possible on the basis of elements available as of today.

ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

CLASSES OF FINANCIAL INSTRUMENTS

The following table shows the breakdown of financial assets and liabilities required by IFRS 9 based on the categories defined by IAS 39.

€ thousand	FVTPL	FVTOCI	Amortised cost	Balance sheet value	Explanatory notes
Non-current assets	**2,350**	**0**	**223,714**	**226,064**	
Equity investments	2,350	0	0	2,350	16
Financial assets	0	0	223,714	223,714	18
Current assets	**0**	**0**	**3,369,069**	**3,369,069**	
Trade receivables			136,552	136,552	20
Current financial assets	0	0	3,214,004	3,214,004	20
Other current assets	0	0	18,514	18,514	20
Non-current liabilities	**0**	**181,190**	**3,516,371**	**3,697,561**	
Bonds	0	181,190	3,072,254	3,253,444	25
Payables to banks	0	0	444,117	444,117	25
Current liabilities	**0**	**8,649**	**664,886**	**673,535**	
Short-term bonds	0	0	16,813	16,813	25
Payables to banks	0	8,649	141,747	150,395	25
Other financial payables	0	0	262,284	262,284	25
Trade payables	0	0	224,036	224,036	25
Other liabilities	0	0	20,006	20,006	25

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of securities not listed on an active market is determined using the valuation models and techniques prevailing on the market or using the price provided by several independent counterparties.
The fair value of medium/long-term financial receivables and payables is calculated on the basis of the risk-less and risk-less adjusted rates. It must be noted that for trade receivables and payables with contractual expiry within the financial year, the fair value has not been calculated as their book value approximates the same.
In addition, fair value is not calculated when the fair value of financial assets and liabilities cannot be objectively determined.

TYPES OF FINANCIAL RISKS AND RELATED HEDGING ACTIVITIES

Foreign exchange risk

Acea is not particularly exposed to this type of risk which is concentrated on the conversion of the Financial Statements of foreign subsidiaries.
As regards the 20 billion Yen Private Placement, the exchange rate risk is hedged through a cross currency swap described in the section on interest rate risk.

Liquidity risk

As part of the Group's policy, the objective of managing liquidity risk for Acea is to have a financial structure that, in line with the business objectives and with the limits defined by the Board of Directors, ensures a level of liquidity appropriate to the financial needs, maintaining a correct balance between duration and composition of the debt.
The liquidity risk management process, which uses financial planning tools for outflows and receipts suitable to manage treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract.
At 31 December 2020 the Parent Company had unused committed credit lines of € 500.0 million, uncommitted lines of € 558.0 million of which € 140.0 million used, as well as unused and available medium/long term loan lines of € 250.0 million. No guarantees were granted in obtaining these lines.
The EMTN Programme approved in 2014 and already adjusted during 2018 was further expanded in July 2019, bringing it to a total amount of € 4 billion. Following the issue of the bond in May for € 0.5 billion, Acea may place additional bond issues up to a total residual amount of € 1.4 billion.

Interest rate risk

The Acea Group's approach to managing interest rate risk, which takes the structure of assets and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging funding costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.
The Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.
In particular, for static management (to be opposed to the dynam-

ic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term.
Acea has, up to now, opted to minimise interest rate risk by choosing a mixed range of fixed and floating rate funding instruments.
As it is known, fixed rate funding protects a borrower from cash flow risk in that it stabilises the financial outflows in the Income Statement, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.
An analysis of the consolidated debt position shows that the risk Acea is exposed to is mainly in the form of fair value risk, being composed of hedged fixed rate borrowings (81.1%) as at 31 December 2020, and to a lesser extent to the risk of fluctuations in future cash flows.
Acea is consistent with its decisions regarding interest rate risk management that essentially aims to both control and manage this risk and optimise borrowing costs, taking account of Stakeholders' interests and the nature of the Group's activities, and based on the prudence principle and best market practices. The main objectives of these guidelines are as follows:

- identifying, from time to time, the optimal combination of fixed and variable rates;
- to pursue a potential optimisation of borrowing costs within the risk limits established by governance bodies and in accordance with the specific nature of the business;
- to manage derivatives transactions solely for hedging purposes, should Acea decide to use them, in respect of the decisions of the Board of Directors and, therefore, the approved strategies and taking into account (in advance) the impact on the Income Statement and Statement of Financial Position of said transactions, giving preference to instruments that qualify for hedge accounting (typically cash flow hedges and, under given conditions, fair value hedges).

Please note that Acea has:

- returned the € 100 million loan obtained on 27 December 2007 to a fixed rate with a swap. The IRS plain vanilla swap was signed on 24 April 2008 with effect from 31 March 2008 (date of the draw of the underlying) and expires on 21 December 2021;
- a cross currency transaction to transform to Euro – through a plain vanilla DCS swap – the currency of the private placement (Yen) and the Yen rate applied to a fixed Euro rate through a plain vanilla IRS swap.

All the derivative instruments taken out by Acea and listed above are non-speculative and the fair values of the same are respectively:

- negative for € 0.3 million (negative for € 10 million at 31 December 2019);
- negative for € 22.7 million (negative for € 17.9 million at 31 December 2019).

The fair value of medium/long-term debt is calculated on the basis of the risk-free and the risk-adjusted interest rate curves.

€ thousand	Amortised cost (A)	FV RISK LESS (B)	Delta (A) - (B)	FV RISK (C)	Delta (A) - (C)
Bonds	3,270,257	3,637,566	(367,309)	3,550,897	(280,640)
fixed rate	99,908	100,914	(1,006)	100,562	(654)
floating rate	395,802	403,416	(7,614)	395,010	792
floating rate cash flow hedge	8,649	8,706	(57)	8,375	274
Total	**3,774,616**	**4,150,603**	**(375,986)**	**4,054,844**	**(280,228)**

This analysis was also carried out with the "risk-adjusted" curve, i.e. a curve adjusted for the level of risk and the business sector of Acea. A curve populated with fixed rate bonds denominated in EUR, issued by domestic companies in the public utilities sector with a composite rating ranging from BBB+ and BBB- was used.

A sensitivity analysis has been carried out on medium/long-term financial liabilities using stress testing, thus applying a constant spread over the term structure of the risk-free interest rate curve. This makes it possible to evaluate the impact on fair value and on future cash flows for both the individual instruments in the portfolio and the overall portfolio.

The following table shows the overall fair value changes of the debt portfolio based on parallel shifts (positive and negative) between -1.5% and +1.5%.

Constant spread applied	Changes in present value (€ million)
(1,5)%	(418.7)
(1,0)%	(286.6)
(0,5)%	(159.3)
(0,3)%	(97.4)
n.s.	0.0
0.25%	23.1
0.50%	81.7
1.00%	195.9
1.50%	305.9

With regard to the type of hedging of which the fair value is determined and with reference to the hierarchies required by the IASB, it should be noted that, since these are composite instruments, the level is type 2 and that during the period there were no reclassifications from or to other levels of fair value as defined by IFRS 13.

COMMITMENTS AND CONTINGENCIES

ENDORSEMENTS AND SURETIES ISSUED AND RECEIVED

These have a negative net balance of € 28,617 thousand, as the endorsements and sureties issued amounted to € 22,352 thousand while those received amounted to € 50,969 thousand.
These recorded an increase of € 8,714 thousand compared to the end of the previous year. The change is mainly due to the issue of bank guarantees by Intesa San Paolo for two bank sureties issued in favour of SEDAPAL for management of the pumping stations in the city of Lima and for maintenance of the water and sewerage network in the Nord zone in the amount of € 6,694 thousand and for bank sureties issued in favour of INPS as part of the "*Isopensione*" programme, in the amount of € 2,536 thousand.

LETTERS OF PATRONAGE ISSUED AND RECEIVED

The balance is positive for € 623,795 thousand, consisting of letters of patronage issued for € 623,998 thousand and letters of patronage received for € 203 thousand.

During the year they underwent an overall increase of € 20,069 thousand.

The main changes concerned:

- the increase in guarantees in favour of various companies in compliance with the obligations established in electricity transport contracts on the account of Acea Energia, for a total of € 35,983 thousand;
- € 7,485 thousand for back to back guarantees issued to bank institutions after the acquisition of Trinovolt, Marche Solar and Eurline 3;
- the decrease in the guarantee benefiting CDDPP (- € 22,093 thousand) offset by the increase in the guarantee to Terna (+ € 164 thousand) for transport services.

THIRD-PARTY ASSETS UNDER CONCESSION

These amount to € 86,077 thousand and have not changed since 31 December 2019 and refer to assets related to Public Lighting.

RESOLUTIONS REGARDING THE RESULT FOR THE YEAR AND THE DISTRIBUTION TO SHAREHOLDERS

Dear Shareholders,
In inviting you to approve the Financial Statements we are submitting to you, we propose to allocate the profit for the year ended 31 December 2020, equal to € 177,760,881.74, as follows:

- € 8,888,044.09, equal to 5% of profit, to the legal reserve;
- to distribute a total dividend of € 170,038,325.60 to Shareholders, corresponding to a unit dividend of € 0.80 per share equal to the entire distributable profit for the financial year ended 31 December 2020 of € 168,872,837.65 and retained earnings of € 1,165,487.95.

The total dividend (coupon no. 22) of € 170,038,325.60, equal to € 0.80 per share, will be paid starting from 23 June 2021 with coupon detachment on 21 June 2021 and record date 22 June 2021.
On the date of approval of the Financial Statements, treasury shares amounted to no. 416,993.

Acea SpA

The Board of Directors

ANNEXES TO THE EXPLANATORY NOTES OF WHICH THEY FORM AN INTEGRAL PART

ANNEX 1 – NET FINANCIAL POSITION AT 31 DECEMBER 2020

€ thousand	31/12/2020	Of which related party transactions	31/12/2019	Of which related party transactions	Change
Non-current financial assets/(liabilities)	348		126		222
Parent company, subsidiaries and associates current financial assets/(liabilities)	223,366	223,366	207,872	207,872	15,494
Non-current borrowings and financial liabilities	(3,710,655)		(3,170,895)		(539,760)
Net medium/long-term debt	**(3,486,941)**	**223,366**	**(2,962,897)**	**207,872**	**(524,044)**
Cash and cash equivalents and securities	418,505		688,145		(269,639)
Short-term debt	(167,208)		(493,388)		326,180
Current financial assets/(liabilities)	223,011		140,330		82,681
Parent Company and associates non-current financial assets/(liabilities)	2,728,708	2,728,708	2,377,063	2,377,063	351,645
Short-term financial position	**3,203,017**	**2,728,708**	**2,712,150**	**2,377,063**	**490,867**
Total net financial position	(283,924)	2,952,074	(250,747)	2,584,935	(33,177)

ANNEX 2 – CHANGES IN HOLDINGS AS AT 31 DECEMBER 2020

€ thousand	31/12/2019	CHANGES IN THE PERIOD Acquisitions	Disposals	Reclassifications	Increases/ decreases	Write-downs/ losses/ revaluations	31/12/2020
Subsidiaries	**683,861**	**0**	**0**	**0**	**0**	**0**	**683,861**
Areti SpA	585,442	0	0	0	0	0	585,442
Acea Ato 2 SpA	120	0	0	0	(120)	0	0
Acea8cento SpA	7,209	0	0	0	0	0	7,209
Acea Elabori SpA	277,044	0	0	0	120	0	277,164
Acea Energia SpA	16,793	0	0	0	8,436	0	25,229
Acea Ato 5 SpA	43	0	0	0	0	0	43
Consorcio Acea-Acea Domenicana	14,663	0	0	0	0	0	14,663
Acque Blu Arno Basso SpA	19,383	0	0	0	0	0	19,383
Ombrone SpA	43,911	0	0	0	0	0	43,911
Acque Blu Fiorentine SpA	32,573	0	0	0	0	0	32,573
Acea Ambiente S.r.l.	5,417	0	0	0	0	0	5,417
Aquaser S.r.l.	2,874	0	0	0	0	0	2,874
Crea Gestioni S.r.l.	60	0	0	0	0	0	60
Parco della Mistica	21,410	0	0	0	0	0	21,410
Sarnese-Vesuvianoo S.r.l.	8,341	0	0	0	0	0	8,341
Acea Liquidation and Litigation S.r.l.	43,441	0	0	0	0	0	43,441
Acea Produzione SpA	50	0	0	0	0	0	50
Acea Energy Management S.r.l.	21,337	0	0	0	(3,548)	0	17,789
Acea International SA	0	0	0	0	0	0	0
Crea SpA (*in liquidation*)	0	0	0	0	0	0	0
Hydreco S.c.a.r.l. (*in liquidation*)	2,881	0	0	0	1,618	0	4,499
Umbriadue Servizi Idrici S.c.a.r.l.	1,222	0	0	0	0	0	1,222
Acque Industriali S.r.l.	64	0	0	0	0	0	64
TWS SpA	4,290	0	0	0	0	0	4,290
Pescara Distribuzione Gas	10	0	0	0	0	0	10
Acea Innovation	0	19,732	0	0	0	0	19,732
Alto Sangro Distribuzione Gas S.r.l.	1,792,439	19,732	0	0	6,506	0	1,818,678
Total – subsidiaries	**1,792,439**	**19,732**	**0**	**0**	**6,506**	**0**	**1,818,678**

CHANGES IN THE PERIOD

€ thousand	31/12/2019	Acquisitions	Disposals	Reclassifications	Increases/ decreases	Write-downs/ losses/ revaluations	31/12/2020
Associates							
Aguazul Bogotà SA	553	0	0	0	(189)	0	364
Ecomed S.r.l.	118	0	0	0	0	0	118
Umbra Acque SpA	6,851	0	0	0	0	0	6,851
Ingegnerie Toscane S.r.l.	58	0	0	0	0	0	58
Intesa Aretina S.c.a.r.l.	11,505	0	0	0	0	0	11,505
Geal SpA	2,059	0	0	0	0	0	2,059
Umbria Distribuzione Gas SpA	318	0	0	0	0	0	318
Marco Polo SpA (*in liquidation*)	0	0	0	0	0	0	0
Citelum Napoli Pubblica Illuminazione S.c.a.r.l.	0	0	0	0	0	0	0
Sienergia SpA (*in liquidation*)	0	0	0	0	0	0	0
DI.T.n. E. S.c.a.r.l.	12	0	0	0	0	0	12
Total – associates	**21,475**	**0**	**0**	**0**	**(189)**	**0**	**21,286**

CHANGES IN THE PERIOD

€ thousand	31/12/2019	Acquisitions	Disposals	Reclassifications	Increases/ decreases	Write-downs/ losses/ revaluations	31/12/2020
Other companies							
Polo Tecnologico Industriale Romano S.p.A.	2,350	0	0	0	0	0	2,350
WRC PLC	0	0	0	0	0	0	0
Green Capital Alliance Società Benefit S.r.l.	2	0	0	0	(2)	0	0
Total – other companies	**2,352**	**0**	**0**	**0**	**(2)**	**0**	**2,350**

ANNEX 3 – SIGNIFICANT NON-RECURRING TRANSACTIONS PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

It must be noted that no non-recurring significant transactions were carried out during the period.

ANNEX 4 – POSITIONS OR TRANSACTIONS DERIVING FROM UNUSUAL AND/OR ATYPICAL OPERATIONS

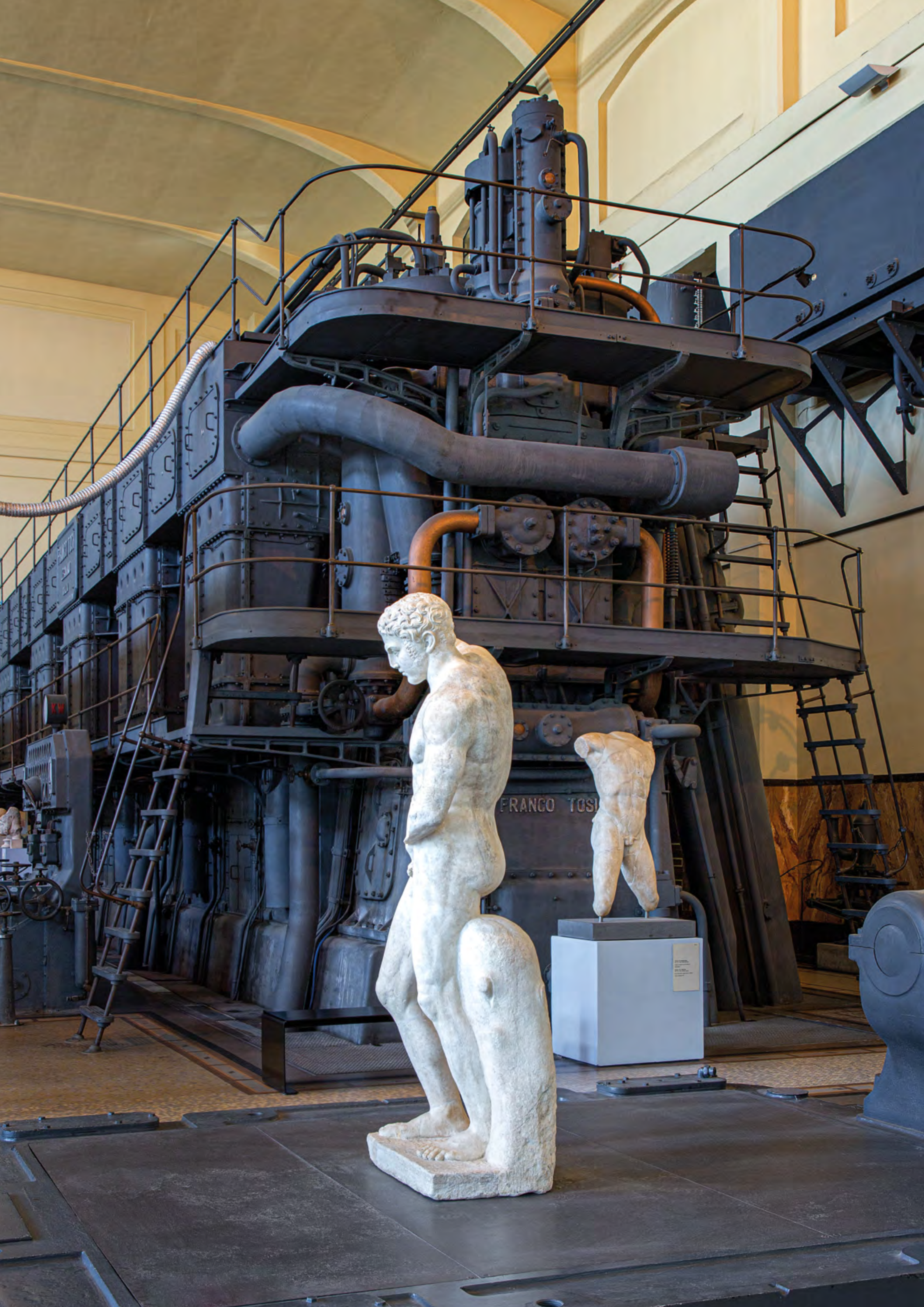
Pursuant to the CONSOB Communication of 28 July 2006, it should be noted that during 2020 Acea SpA has not performed atypical and/or unusual transactions, as defined by the Communication itself.

ANNEX 5 – SEGMENT INFORMATION (IFRS 8)

€ thousand	Public Lighting	Corporate	Total continuing operations	Discontinuing operations	Total
Tangible fixed assets	8,731	102,010	110,741		110,741
Real estate investments	0	2,372	2,372		**2,372**
Intangible fixed assets	0	57,862	57,862		**57,862**
Right of use	0	17,626	17,626		**17,626**
Equity investments in unconsolidated subsidiaries and associates	0	1,839,964	1,839,964		**1,839,964**
Other equity investments	0	2,350	2,350		**2,350**
Deferred tax assets	0	17,898	17,898		**17,898**
Financial assets	26,484	238,442	264,925		**250,198**
NON-CURRENT ASSETS	**35,215**	**2,278,525**	**2,313,739**		**2,313,739**
Trade receivables	831	136,552	137,382		137,382
Other current assets	0	56,458	56,458		56,458
Current tax assets	0	0	0		0
Current financial assets	146,668	3,067,336	3,214,004		3,214,004
Cash and cash equivalents	0	418,505	418,505		**418,505**
CURRENT ASSETS	**147,498**	**3,678,850**	**3,826,349**		**3,826,349**
Non-current assets held for sale	0	0	0		**0**
TOTAL ASSETS	182,713	5,957,375	6,140,088		6,140,088

€ thousand	Public Lighting	Corporate	Total continuing operations	Discontinuing operations	Total
Shareholders' equity					
Share capital	0	1,098,899	1,098,899		**1,098,899**
Legal reserve	0	129,761	129,761		**129,761**
Other reserves	0	77,980	77,980		**77,980**
Retained earnings/(losses)	0	159,207	159,207		**159,207**
Profit (loss) for the year	0	177,761	177,761		**177,761**
Total Group Shareholders' equity	0	1,643,607	1,643,607		**1,643,607**
Minority interests	0	0	0		**0**
Total Shareholders' equity	0	1,643,607	1,643,607		**1,643,607**
Employee severance indemnity and other defined-benefit plans	0	21,500	21,500		**21,500**
Provision for risks and charges	0	16,203	16,203		16,203
Borrowings and financial liabilities	0	3,710,655	3,710,655		3,710,655
Other liabilities	0	0	0		0
NON-CURRENT LIABILITIES	**0**	**3,748,358**	**3,748,358**		**3,748,358**
Financial payables	831	429,492	430,323		430,323
Payables to suppliers	101,823	224,036	325,860		325,860
Tax payables	0	17,177	17,177		17,177
Other current liabilities	0	26,953	26,953		26,953
CURRENT LIABILITIES	**102,654**	**697,658**	**800,312**		**800,312**
Liabilities directly associated with assets held for sale	0	0	0		0
Total liabilities and Shareholders' equity	**102,654**	**6,089,624**	**6,192,278**		**6,192,278**

€ thousand	Public Lighting	Corporate	Total continuing operations	Discontinuing operations	Total
Revenue from sales and services	33,666	118,539	152,205		**152,205**
Other revenue and income	0	12,589	12,589		**12,589**
Net revenues	**33,666**	**131,128**	**164,794**		**164,794**
Personnel costs	0	61,557	61,557		**61,557**
Costs of materials and overheads	38,072	104,127	142,199		**142,199**
Operating costs	**38,072**	**165,684**	**203,756**		**203,756**
EBITDA	**(4,406)**	**(34,556)**	**(38,962)**		**(38,962)**
Net write-downs (write-backs) of trade receivables	0	(300)	(300)		**(300)**
Depreciation, amortisation and provisions	1,971	21,613	23,584		**23,584**
Operating profit/(loss)	**(6,377)**	**(55,869)**	**(62,246)**		**(62,246)**
Financial income	415	98,853	99,268		**99,268**
Financial costs	1	(66,109)	(66,108)		**(66,108)**
Income/(costs) from equity investments	0	204,179	204,179		**204,179**
Profit/(loss) before tax	**(5,961)**	**181,055**	**175,094**		**175,094**
Income taxes	0	(2,667)	(2,667)		**(2,667)**
Net result of continuing operations	**(5,961)**	**183,722**	**177,761**		**177,761**
Net profit/(loss) from discontinued operations					
Net profit/(loss)	**(5,961)**	**183,722**	**177,761**		**177,761**


FRANCO TOSI

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING (IN ACCORDANCE WITH ART. 153 OF ITALIAN LEGISLATIVE DECREE 58/1998)

Dear Shareholders,

The Board of Statutory Auditors (hereinafter also referred to as "the Board") is required to report to the Shareholders' Meeting on the supervisory activities carried out during the year and on the omissions and reprehensible facts identified pursuant to art. 153 of Italian Legislative Decree no. 58/1998 (hereinafter also "TUF").

The Board of Statutory Auditors may also make comments and proposals regarding the financial statements, their approval and the matters within its remit.

Since its appointment, the Board of Statutory Auditors has carried out its institutional duties in compliance with the Italian Civil Code and Italian Legislative Decree no. 58/1998 (TUF) and 39/2010 (Consolidated Law on Statutory Auditing), the rules of the by-laws and the regulations issued by the Authorities exercising supervisory and control activities, also taking into account the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts.

In particular, the Board of Statutory Auditors monitored (i) compliance with the law and the by-laws, (ii) compliance with the principles of correct administration, (iii) the adequacy of the Company's organisational structure, the internal control and risk management system and the administrative-accounting system, as well as the reliability of the latter in correctly representing operating events, (iv) the procedures for the concrete implementation of the corporate governance rules adopted by the Company in compliance with the Corporate Governance Code of the Committee for the Corporate Governance of Listed Companies (hereinafter also referred to as the "Corporate Governance Code"), (v) the adequacy of the instructions imparted to subsidiaries pursuant to art. 114, paragraph 2 of the TUF and (vi) with reference to the obligations relating to non-financial information pursuant to Italian Legislative Decree no. 254/2016.

Furthermore, in its capacity as Internal Control and Audit Committee, the Board of Statutory Auditors performed the functions envisaged by art. 19 of Italian Legislative Decree no. 39/2010.

This report provides information on the activities carried out by the Board of Statutory Auditors of Acea S.p.A. (hereafter, also "Acea" or the "Company") during the financial year which ended on 31 December 2020.

In the light of the foregoing, the information contained in Consob Communication 1025564/2001 and subsequent amendments and additions is provided below.

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1. Appointment of the Board of Statutory Auditors

The undersigned Board of Statutory Auditors was appointed at the Shareholders' Meeting held on 17 April 2019 for three financial years until the approval of the 2021 Financial Statements.

The Board of Statutory Auditors in office at the date of this report is composed of Mr Maurizio Lauri (Chairperson), Ms Pina Murè and Ms Maria Francesca Talamonti.

2. Self-assessment of the Board of Statutory Auditors

Upon taking office, the Board of Statutory Auditors assessed its composition, deeming it to be adequate, verifying in particular compliance with the requirements of independence, professionalism, integrity, diversity, skill and limits to the number of positions held and communicating the results of these assessments to the Board of Directors.

The members of the Board of Statutory Auditors have also stated that they have the time and expertise necessary for the complexity of their duties.

The Board of Statutory Auditors then, during the first few months of 2021, put in place a self-assessment process for 2020, which it presented to the Board of Directors at the meeting held on 10 March 2021 so that it could include the relative conclusions in the Report on Corporate Governance and Ownership Structure.

To this end, a questionnaire addressed to the members of the Board of Statutory Auditors was prepared with the support of the internal structures, which was then used to assess the correct and effective operation of the body and its adequate composition.

The questionnaire primarily consisted in statements with which the members of the Board of Statutory Auditors were asked to express their level of agreement (possibilities ranging from "strongly disagree" to "strongly agree"), and also included questions requiring explicit answers.

The areas covered by the questionnaire included:

- Quantitative composition;
- Qualitative composition;
- Organisation of work;
- Activity carried out by the Chairperson;
- Exchange of information with directors, independent auditors, the director in charge of setting up and maintaining the internal control and risk management system, the Supervisory Board pursuant to Italian Legislative Decree no. 231/2001, the Manager in Charge of Financial Reporting, the board committees, the other bodies and other functions responsible for controls and the control bodies of group companies;
- Participation in the meetings of the board of directors and of the board committees.

The results of the survey showed that there are no conditions requiring corrective action to be taken in situations where the Statutory Auditors' compliance with the necessary requirements, like independence, professionalism and integrity, is at risk.

The Statutory Auditors unanimously "strongly agreed" that the quantitative composition of the Board of Statutory Auditors is adequate to the size and complexity of the Company's organisational structure.

With regard to analysis of the qualitative elements inherent to the professionalism required by the assignment, the continued presence of the following knowledge and skills were verified with the questionnaires:

(i) knowledge of company organisation, its internal control and risk management systems, inherent to corporate governance, internal audit processes and the execution of statutory audits; (ii) technical expertise in the administrative, accounting and tax fields, financial matters and the functioning of financial markets, as well as specific knowledge of the markets and businesses the Company operates in.

The current expertise and knowledge of the members of the Board of Statutory Auditors were therefore considered adequate, both for the whole and the mix of skills and for the contribution of professionalism appropriate to the Company's control needs.

The diversity of the members of the Board of Statutory Auditors in office was assessed to adequately represent experience, origin, age and gender.

The members of the Board of Statutory Auditors also considered it very important that an overall diversity within the control body be guaranteed, with particular reference to:

- Experience/training and culture;
- Professional skills (corporate governance, accounting, risk management, internal audits, regulations applicable to the utilities sector, compliance, ESG issues);
- Background of reference and specific areas of professional expertise, soft skills, age groups and seniority.

With regard to the availability of time to carry out the duties of the office in light of its complexity, the composition of the Board of Statutory Auditors and attendance at meetings of the Board and Board of Directors, it was found that the Statutory Auditors dedicate sufficient time and resources to the performance of their duties. In this regard, it was also noted that the Board of Statutory Auditors of Acea continues to require a significant commitment on the part of its members, who are therefore asked to make sure that they have enough time to carry out their duties.

The effectiveness (in terms of timeliness and suitability to identify areas for improvement in the organisational, administrative and accounting structures and in the internal control and risk management system), the adequacy (with respect to the size, organisational, sector and corporate business model characteristics) and therefore the functionality (with respect to the performance of legal supervision, the monitoring of the financial and non-financial reporting process, the monitoring of the statutory audit) of the exchange of information with the main managerial interlocutors of the Board of Statutory Auditors was judged to be positive.

With regard to the meetings of the Board of Statutory Auditors, the adequacy of a number of aspects was positively assessed (also by virtue of the valuable and efficient support provided by the secretariat of the Board of Statutory Auditors), like: the time dedicated to the preparation of the meetings, the related documentation and the agenda; the availability of documentation, the frequency of meetings in relation to the size, complexity and characteristics of the Company, the average duration of the meetings; the dialectic established on the issues covered by the meeting, the timing and accuracy of the minutes, as well as the manner in which the book of meetings and resolutions is held, as well as the dynamics of the meetings in terms of the settlement of any conflicts and making the most of contribution opportunities.

Lastly, the adequacy and functionality of the attendance of the members of the Board of Statutory Auditors at the meetings of the Boards of Directors and the meetings of the Committees of the Board was verified with respect to the pursuit of the supervisory function and the performance of the duties that the law attributes to them. In particular, the possibility of timely access to the documentation of the meetings and the clarity, effectiveness and appropriateness of the interventions made by the Statutory Auditors with respect to the items on the agenda were verified.

As part of the self-assessment, based on the information in its possession, the information requested and acquired, as well as on the declarations made by the individual members, the Board of Statutory Auditors verified and confirmed that all its members continue to meet:

- the independence requirements envisaged by law (art. 148, paragraph 3 of the TUF) and by the Corporate Governance Code (art. 3.C.1 and 8.C.1) for statutory auditors of listed companies. It must also determine that all members of the Board of Statutory Auditors hold the independence requirements envisaged in art. 7 of the Corporate Governance Code approved by the Corporate Governance Committee;
- The requirements of professionalism, integrity, expertise and experience in accordance with the provisions of articles 1 and 2 of Italian Ministry of Justice Decree no. 162 of 30 March 2000 ("*Regulation containing rules for the establishment of the requirements of professionalism and integrity of the members of the Board of Statutory Auditors of listed companies to be issued on the basis of article 148 of Italian Legislative Decree no. 58 of 24 February 1998*");
- The requirements of art. 22 of the by-laws.

It also verified that each member of the Board of Statutory Auditors continues to comply with the provisions of the applicable laws and regulations (art. 148-bis of the TUF and art. 144-duodecies to 144-quinquiesdecies of the Issuers' Regulations) with regard to the limits on the number of posts held.

Moreover, also in accordance with the provisions of art. 19 of Italian Legislative Decree no. 39/2010, it was verified that the members of the Board of Statutory Auditors, as the Internal Control and Audit Committee, as a whole are competent with regard to the professional duties pertaining to the sector the Company operates in.

In light of the information in its possession, at present the Board of Statutory Auditors has therefore assessed how adequate its composition is, having regard to the requirements of professionalism, diversity, expertise, integrity and independence required by law.

3. Activities and Organisation of the Board of Statutory Auditors

During 2020, the Board of Statutory Auditors carried out the activities it was responsible for, holding 19 meetings, each lasting an average of approximately 3 hours and 15 minutes.

The Board of Statutory Auditors also attended all the 12 meetings of the Board of Directors, the 11 meetings of the Control and Risks Committee, 11 meetings of the Nominations and Remuneration Committee, 10 meetings of the Executive Committee, 3 meetings of the Related Parties Committee and 9 meetings of the Ethics and Sustainability Committee.

During the meetings of the Board of Directors, during which, among other items on the agenda, the most important economic, financial and equity transactions of Acea S.p.A. and its subsidiaries were examined, the Board of Statutory Auditors received the information referred to in art. 150, paragraph 1 of the TUF.
Based on the information acquired through its supervisory activities, the Board of Statutory Auditors has not become aware of any transactions carried out during the year to which this report refers from the date of its appointment that were not based on the principles of correct administration, resolved and carried out in breach of the law and the by-laws, not in the interest of Acea S.p.A., in contrast with resolutions passed by the Shareholders' Meeting, manifestly imprudent or reckless, lacking the necessary information in case of Directors' interests or compromising the integrity of the company's assets.

The Board of Statutory Auditors oversaw the Board of Directors' decision-making procedures and verified that the management decisions were compliant with the applicable regulations (substantive legitimacy), adopted in the interest of the Company, compatible with the Company's resources and assets and adequately supported by information, analysis and verification processes.

4. Transactions of particular significance

The most significant transactions carried out by the Acea Group during 2020 are specified in the documentation relating to the financial statements submitted for your approval.

Initially, the Board of Statutory Auditors holds it useful to provide information about the special situation which arose during 2020 due to the Covid-19 pandemic, a situation which impacted all the decisions, operations and, more generally, the activities of the Company.

The health emergency, which is still ongoing as of the time this document is being prepared, had heavy consequences for the global economy as well as the operations of companies. For this reason Acea implemented a detailed series of measures intended to protect the health and safety of its employees and customers, as well as to provide concrete support for the areas in which the Group works. Some of these actions (in particular, activation of smart working, establishing shifts for employees and promotion of remote work) made it necessary to make use of organisational and IT solutions aimed at supporting continuity in regular company activities, while simultaneously protecting the physical safety of people and the IT security of transactions. Hence, activities and projects were identified which ensure the adoption of prompt and effective actions, in line with Ministerial provisions and guidelines coming from Authorities and relevant entities/institutions. As can easily be imagined, the pandemic with its significant social and economic impacts, both domestic and international (although with significant asymmetry in terms of different sectors), as well as the consequent measures implemented, could not help but influence the exposure of the Company to different types of risks based on its activities. With the goal of monitoring, managing and properly measuring these risks in relation to the extraordinary crisis in progress, Acea implemented a series of actions regarding its internal practices, processes and regulations, strengthening and revising its safeguards and controls. The Board of Statutory Auditors paid special attention to the effectiveness and efficacy of these. In its supervision, the Board took particular care with the numerous documents, guidelines, references and recommendations which were issued by the Regulatory Authorities, without forgetting the recommendations regarding the need to provide up to date information to the market on risks associated with Covid-19 that could impact the Company's economic/equity and financial situation, on any actions it had undertaken or planned to mitigate these risks and indicating any potential significant effects with regards to outlook predictions.

In particular, the Auditors focussed their efforts on (i) measuring any expected losses on credit exposures to be included in forecasts of future macroeconomic scenarios; (ii) informing the market on effects suffered due to the health crisis as well as prospective effects, as well as on the actions undertaken and those planned to deal with the crisis, based on the guidelines provided in statements and calls to attention (in particular, those of ESMA and CONSOB); (iii) measuring and determining impairment; (iv) the overall adequacy of the administrative accounting structure, organisational structure and the Internal Controls System in the context of the pandemic.

The Board of Statutory Auditors periodically reviewed reports on the actions implemented to mitigate the impacts of Covid-19, in terms of operating measures aimed at limiting the spread of the disease and commercial measures to limit negative economic effects linked to the health emergency.

Based on the main information acquired in carrying out its duties, certain significant events were also identified which it was deemed expedient to note, even if for the most part they are illustrated in the Group's Report on Operations, to which the reader is referred:

- in March 2020 an agreement was signed to acquire 51% of the equity of Alto Sangro Distribuzione Gas, a methane distributor with a presence in twenty-four municipalities in the Province of l'Aquila;
- in April 2020 an agreement was signed to acquire 60% of the equity of the companies Ferrocart S.r.l. and Cavallari S.r.l. (which holds 100% of Multigreen S.r.l.), which store, process and sort waste in the provinces of Terni and Ancona;
- in May 2020 an agreement was finalised to acquire 70% of the equity of Simam S.p.A. (Servizi Industriali Manageriali Ambientali), a leading company in the design, construction and management of water and waste treatment plants, in environmental works and reclamation, with hi-tech integrated solutions;
- in May 2020 Fitch Ratings confirmed its Long-Term Issuer Default Rating (IDR) for ACEA of "BBB+" with "Stable" outlook, and the Short-Term IDR of "F2";
- also in May 2020 the ACEA Shareholders' Meeting approved the Financial Statements as at 31 December 2019 and approved the payment of a dividend of € 0.78 per share. The Shareholders' Meeting appointed the new Board of Directors with Michaela Castelli as Chairperson, in office for three years, until approval of the 2022 Financial Statements. At its first meeting on the same day, the Board of Directors appointed Giuseppe Gola as the Chief Executive Officer of the Company;
- in July 2020 Standard Ethics improved the Outlook for ACEA from "Stable" to "Positive", with a current rating of "EE-". The Company is on the SE Multi-Utilities Index;
- in October 2020, the ACEA Board of Directors approved the 2020-2024 Business Plan with a heavy push towards sustainability, annual average EBITDA growth of around 7% and investments totalling around € 4.7 billion, of which over € 2 billion linked to specific sustainability targets;
- in November 2020 the Extraordinary Shareholders' Meeting of Servizio Idrico Integrato (SII) approved certain amendments to the Articles of Association. Additionally, the contract was finalised for ASM (controlled by the Municipality of Terni) to sell units of the former company to Umbriadue (an Acea subsidiary), which increased its equity investment in SII from 25% to 40%, making it possible to consolidate the company in the ACEA financial statements on a line by line basis;
- in January 2021 Fitch Ratings confirmed its Long-Term Issuer Default Rating (IDR) for ACEA of "BBB+" with "Stable" outlook, and the Short-Term IDR of "F2". Additionally, the Long-Term Senior Unsecured Rating of "BBB+" was also confirmed;
- also in January 2021 the first placement of a € 900 million Green Bond was successfully completed.

The figures for 2020 in the individual and consolidated financial statements, as well as the non-financial information demonstrate the continued presence of significant capacity to create value for shareholders and economic margins (both in terms of EBITDA and net profit) and financial margins, with a prudent evolution of the net financial position in line with the company's development.

Consolidated revenues total € 3,379.4 million, up by 6.1% with respect to 2019. Consolidated EBITDA increased by 10.9% to € 1,155.5 million (€ 1,042.3 million in 2019). The trend seen in these results, showing organic growth exceeding 10%, can mainly be attributed to the positive performance achieved in regulated water and electricity distribution.

EBIT amounts to € 535.0 million, up by 2.3% with respect to 2019. The result includes greater amortisation and depreciation, up by 21.7%, mainly relative to the Water Segment (the effect of consolidating AdF, € +20.8 million) and Energy Infrastructure (acceleration of depreciation for first generation meters following the second generation meter replacement plan).

Net financial charges fell by € 7.4 million with respect to 2019. At 31 December 2020, the global average all-in cost of the ACEA Group's debt stood at 1.74%, compared to 2.15% in 2019.

The Group's net profit reached € 284.9 million, slightly higher than the figure the previous year (€ 283.7 million).

2020 net profit includes non-recurring components, mainly due to revaluations relative to consolidation of Acquedotto del Fiora. Normalised net profit shows an increase of approximately 22%.

Investments made in 2020 total € 907.0 million, up with respect to the € 792.8 million the previous year (+14.4%). 84% of investments were for regulated activities.

Net working capital increased by € 22 million based on regulatory effects and the impact of Covid-19 on amounts collected.

The Group's net financial debt increased by € 465.2 million, going from € 3,062.8 million at the end of 2019 to € 3,528.0 million at 31 December 2020. The trend for debt was mainly influenced by greater investments and the change in the scope of consolidation, as well as regulatory effects and the impact of the Covid-19 emergency. At 31 December 2020 the NFP/EBITDA ratio was 3.05x and the NFP/RAB ratio was 0.74x. At 31 December 2020, 81% of debt is fixed rate, ensuring protection against any increases in interest rates as well as any financial or credit volatility. At 31 December 2020 the average duration of medium/long-term debt stood at 5.4 years.

Its excellent strategic and geographic position, as well as its effective management, demonstrate the existence of further possibilities for development, which it is held the company can pursue in the near term, as seen in the 2021 Guidance submitted to the market by management.

The Board of Statutory Auditors has recommended management always keep top of mind the need to balance developing profitability with a prudential risk appetite, while continuing to closely monitor controls intended to guarantee sustainable behaviour, in full compliance with current regulations.

In fact, it seems clear that the company strategy must continue to define a virtuous balance between the opportunities for growth of the company's scope, even rapid, and the risks assumed until the complete integration of the acquired companies into the Acea Group systems.

5. Atypical or unusual operations

The documents submitted for your approval, the information received during the meetings of the Board of Directors and the information received from the Chairperson and the Chief Executive Officer, the management, the Boards of Statutory Auditors of directly controlled companies and the statutory auditor did not reveal the existence of atypical and/or unusual transactions, including intra-group transactions or transactions with related parties.

6. Intergroup or related-party transactions

Intra-group transactions or significant transactions with related parties are specified in the documents relating to the financial statements submitted for your approval.

In particular, the Company began analysis and assessment to identify all the necessary corrective actions for its internal procedures in order to fully implement the changes made to the CONSOB regulation on Related Party Transactions, which will take effect on 1 July 2021, issued to implement the delegation contained in Italian Legislative Decree no. 49 of 10 May 2019.

7. Supervisory activities pursuant to the Consolidated Law on Statutory Audits

The Board of Statutory Auditors, identified by the Consolidated Law on Auditing as the "Committee for Internal Control and Statutory Audit", oversaw:

- The financial reporting process;
- The effectiveness of internal control, internal audit and risk management systems;
- The statutory audit of annual accounts and consolidated accounts;
- The independence of the external auditor (hereinafter also "auditor", "external auditor" or "audit firm"), in particular as regards the provision of non-audit services.

The Board of Statutory Auditors examined the reports prepared by the external auditor PwC S.p.A., whose activity supplements the general framework of the control functions established by the regulations with regard to the financial and non-financial reporting process.

On 27 April 2017, the Acea S.p.A. Shareholders' Meeting appointed PwC S.p.A. to audit the accounts for the period 2017-2025, including the statutory audit of the consolidated and separate financial statements, the limited audit of the condensed separate financial statements at 30 June and the audit of the separate annual accounts of Group companies that fall within the scope of unbundling regulations.

These reports, issued on 31 March 2021 in accordance with article 14 of Italian Legislative Decree no. 39/2010, to which reference should be made, show that the Group's separate financial statements and consolidated financial statements were prepared in accordance with the IAS/IFRS standards issued by the International Accounting Standards Board, adopted by the European Union and in force at 31 December 2020, as well as in accordance with the measures issued to implement art. 9 of Italian Legislative Decree no. 38/2005 and subsequent amendments and additions.

Therefore, these are declared as published in a clear manner, such as to accurately and properly represent the equity and financial position, the economic result and cashflows for the year ended 31 December 2020. Moreover, in the opinion of the external auditor, the Report on Operations and the information pursuant to paragraph 1, letters c), d), f), l), m) and to paragraph 2, letter b) of art. 123-bis of the TUF contained in the Report on Corporate Governance are consistent with the financial statements.

Also through its interactions during the year with the Auditing Firm, the Board of Statutory Auditors:

- has verified compliance with communications issued by various Regulatory Authorities, in particular with reference to statements/calls for attention/interpretations issued during 2020 after the spread of the Covid-19 health emergency;
- with reference to the obligation for listed companies to prepare and publish their financial reports in eXtensible HyperText Markup Language (XHTML) format, using Inline Extensible Business Reporting Language (iXBRL) to map the main items in the consolidated financial statements (established by the European Single Electronic Format Regulation - ESEF), acknowledged the extension regarding the date on which the regulation takes effect (originally set for financial year 2020), approved by the European Parliament in December 2020, to which Italy adhered with Law 21/2021 (converting the “1000 Postponements”);
- acknowledged the uncertainties linked to the Covid-19 health emergency, with possible impacts on future scenarios and economic/equity results still unpredictable, given the uncertainties correlated with the exceptional duration of this pandemic event.

The Board of Statutory Auditors has also examined the additional report issued by the Auditing Firm to the “Internal Audit and Audit Committee” on 31 March 2021, pursuant to article 19 of Italian Legislative Decree 39/2010, in which it illustrated: i) the main aspects of the audit; ii) the levels of significance for the consolidated and separate financial statements; iii) the audit plan; iv) the scope and method of consolidation; v) the audit methodology and valuation methods applied in the consolidated and separate financial statements; vi) the areas of focus relating to the consolidated and separate financial statements; vii) the activities carried out by the audit team.

The main areas covered in the report mainly refer to:

- ATO 5 S.p.A. - a company involved in significant tax, regulatory, administrative and criminal litigation against various authorities, fully described in the documents of the consolidated financial statements, which require continuous monitoring for the consequent assessments prescribed by the accounting standards of reference. At the moment, investigations and litigation are under way, and therefore based on the information provided by the company's lawyers, where the risk has been assessed by them as possible since it is not possible to quantify its final effect precisely, information has been provided in the notes to the financial statements. Where the risk has been assessed as probable, provisions have been made based on the best information available. Although it is currently impossible to determine the exact form, extent or duration of any measures taken by the competent authorities, any liability that may arise could result in cash outflows or potentially have a negative effect on the shareholders' equity and net results of the Company and/or the Group. Acea S.p.A.'s shareholding in Ato 5 S.p.A. was subject to an impairment test as at 31 December 2020 (together with all the other shareholdings recorded in Acea S.p.A.'s financial statements) which, in confirming the recoverability over time of the book value recorded in the financial statements in light of the business plan envisaged by management for the company, showed a small headroom (difference between carrying amount and equity value) such that future requirements for further write-downs of the book value of the investment cannot be excluded if the actual development of the company's business should differ from the forecasts in the business plan underlying the impairment test. Recently, the relevant authority approved a new tariff plan which includes a hypothetical tariff less than that hypothesised by the Company when preparing its business plan, which served as the basis for impairment activities. The Notes to the financial statements report sensitivity to the possible effects and impacts of this different tariff structure, while also provided possible compensatory measures which management could implement in terms of cost reductions. The company has significant debt with regards to the parent company Acea S.p.A., full recoverability of which is expected in the light of the financial plans of ATO 5 S.p.A., which include taking advantage of the RAB at the end of the concession and full recovery of tariff adjustments over the period of the plan, it not being possible to exclude a need for Acea S.p.A. to write-down the receivables due to it if over time different trends arise in contrast to those foreseen in the company's planning documents);
- Purchase Price Allocation (during 2019 and 2020) the Acea Group implemented a series of activities aimed at expanding the Group in its operating sectors. In particular, the transactions concerned both acquisitions of companies and the revision of shareholders' agreements of associated companies that led to the acquisition of control. Following the acquisition of control (both for acquisition and for the audit of shareholders' agreements), for the purposes of the consolidated financial statements the Company is required within 12 months to allocate the price paid on the basis of the requirements of IFRS 3. With regard to

the 2019 acquisitions, the Company completed the purchase price allocation transactions for two companies, one of which (Acquedotto del Fiora S.p.A.), consolidated through the modification of the shareholders' agreements (with the acquisition price determined by an independent expert, by determining the fair value of the stake held as of the date of acquisition of control). For the companies included in the scope of consolidation during 2020, a provisional allocation of the price paid was made, in accordance with the accounting standards of reference. The purchase price allocation will be completed in 2021 and will involve 17 companies, one of which (SII SCPA) with acquisition of control, as for Acquedotto del Fiora S.p.A., through the revision of the shareholders' agreements).

In the same document, the external auditor also certified that no significant audit differences were found in the consolidated and separate financial statements, nor were significant deficiencies identified in the internal control system with respect to the financial reporting process, listing the obligatory communications made to the corporate bodies and finally acknowledging that, from the checks on the regular maintenance of the corporate accounts and the correct recording of operating events in the accounting records, no significant aspects emerged to report.

In any case, the Board of Statutory Auditors was informed of certain issues and/or areas for potential improvement in the internal control system in relation to the financial reporting process, assessed by the Auditor as “not significant”, which will be formalised in the Management Letter which is habitually sent to the Company.

These aspects were discussed and examined with the Board of Statutory Auditors, which will take them into account when making their observations to the Board of Directors, in compliance with that established in article 19, paragraph 1, letter a) of Italian Legislative Decree 39/2010, together with the additional report providing additional information and on the adoption of the measures under the responsibility of the Administrative Body.

The Control and Risks Committee and the Board of Directors approved an update to the impairment test procedure which describes the process, roles and responsibilities with regards to the preparation of impairment tests, amending the version adopted by the Board of Directors on 19 February 2020 in a limited number of areas.

At its meeting on 10 March 2021 the Board of Directors examined the results of the impairment test at 31 December 2020, prepared through the application of the aforementioned procedure. The Company appointed an external entity to verify all the substantial elements in the impairment process for this test, also including an audit of the procedure. Cash flows used for the evaluations were processed on the basis of the 2020-2024 Business Plan, also preparing appropriate sensitivity analysis. The above was also in the light of the expediency of carrying out in-depth assessments in the light of the ongoing pandemic, as was also requested by bodies such as the European Securities and Market Authority (ESMA), CONSOB and the standard setter (OIV – Italian Evaluation Body).

While the market capitalisation of Acea S.p.A.is higher than the value of the Group's shareholders' equity, the second-level impairment test was carried out without finding any issues.

The external auditor periodically met with the Board of Statutory Auditors in accordance with the provisions of art. 150, paragraph 3 of the TUF for the purpose of exchanging reciprocal information, and did not bring to the attention of the Board of Statutory Auditors any acts or facts considered reprehensible or irregularities that required the formulation of specific reports pursuant to art. 155, paragraph 2 of the TUF.

Given the importance that the Board of Statutory Auditors attributes to the principle of professional scepticism that must characterise statutory auditing, a meeting was also organised between the Board of Statutory Auditors and the Quality Review Partner of PwC S.p.A. assigned to the Acea Group, during which the latter fully illustrated all the activities carried out with regard to the quality control of the auditing process.

In agreement with the external auditor, the Board of Statutory Auditors has also defined Audit Quality Indicators whose purpose is to provide the Board of Statutory Auditors, in its function as Internal Control and Audit Committee, with support in assessing the quality of the audit, with a particular focus on the assessment of the quantitative and qualitative dimensions of the audit service, the assessment of the necessary skills of the auditor and the safeguards put in place by the auditor with regard to independence.

The agreed indicators relate to measures of the level of professional experience of audit team members, the level of training they have acquired over time, the involvement of senior audit team members (the assumption being that the quality of the audit increases with higher levels of involvement by senior members), with particular regard to indicators of the workload of partners and senior managers. The level of involvement of staff with specialised expertise in the audits is also monitored, as well as indicators to ensure auditor independence with regard to fees received for non-audit services.

To that end, during the year and in compliance with the referenced provisions on audits, the Board of Statutory Auditors preventively approved, after the relative checks regarding potential non-compliance risks, the various audit appointments granted to the Auditing Firm and companies within its network.

Note that a specific internal regulation is in effect a the Group level which governs operations linked to these audits and the granting of appointments for non-audit services.

In 2020, with reference to fees paid to PricewaterhouseCoopers S.p.A., in compliance with the regulations in effect, and to offer complete disclosure, a request was made to add to the audit fee due to greater work and greater expense with respect to the proposal made with regards to the nine-year audit appointment approved by the Shareholders’ Meeting.

These requests for additional amounts were put forward in relation to cases suitable to justify this change, based on that established in the general conditions of the contract that governs audit activities.

Considering the characteristics and size of the addition, as well as the legitimate reference to the above cited contractual clause, the Board of Statutory Auditors granted the requested addition, also obtaining the evaluations made on the subject by the Board of Directors.

The Board of Statutory Auditors examined the declaration on the independence of the external auditor pursuant to article 17 of Italian Legislative Decree no. 39/2010, issued by the latter on 30 March 2021, which does not indicate situations that have compromised its independence or causes of incompatibility pursuant to articles 10 and 17 of that decree and its implementing provisions.

The Board of Statutory Auditors also acknowledged the Transparency Report prepared by the Auditing Firm, published on its website pursuant to article 13 of Regulation EU 537/2014.

Based also on the declaration of the external auditor, the Board of Statutory Auditors points out that in addition to the audit engagements envisaged by the Shareholders' Meeting resolution, during the 2020 financial year the PwC network was awarded a fee for the following non-auditing services:

Services other than auditing provided to Acea S.p.A. during the year 2020			
Category	**Subject which provided the service**	**Description of service**	**Amount /mgl)**
Audit Related Service	PwC S.p.A.	Limited audit of Acea S.p.A. non-financial declaration	50
Audit Related Service	PwC S.p.A.	Auditing of accounting separation schedules (unbundling) for Acea S.p.A.	15
Audit Related Service	PwC S.p.A.	Issuing a Comfort Letter to issue and renew the bond loan issued for the EMTN programme	120
Total certification services			**185**
Non-Audit Service	PwC S.p.A.	**Support for the Financial Reporting Officer for 262 tests**	131
Total other services			**131**

The ratio between the cost of non-audit services and the three year average of audit services is below the limit established in applicable regulations (70%).

8. Supervision of the financial disclosure process

The Board of Statutory Auditors has examined the internal rules relating to the internal control system for financial reporting, i.e. all the activities to identify risks/controls and the procedures adopted to ensure the achievement of the objectives of accuracy, reliability and timeliness of financial reporting with reasonable certainty. This system constitutes the presumption that the Executive responsible for preparing the company's financial reports (hereinafter the "Financial Reporting Officer") appointed pursuant to Italian Law 262/2005, together with the Chief Executive Officer, can issue the declarations required by art. 154-*bis* of the TUF.

In its capacity as the Internal Control and Audit Committee pursuant to Italian Legislative Decree no. 39/2010, the Board of Statutory Auditors met periodically with the Financial Reporting Officer and the Independent Auditors for an exchange of information that involved, among other topics, the management and control model of the Acea Group pursuant to Italian Law no. 262/2005 (hereinafter the "262 Model").

The model defines the guiding principles and methodological approach for the establishment, assessment and maintenance of the internal control system that oversees the preparation of the financial statements, illustrating the main components of the 262 framework adopted by the Acea Group. The model is supplemented by a regulation (which establishes the position of Financial Reporting Officer and regulates his/her activities) and an annex to the regulation that regulates the internal information flows within the Acea Group (internal chain of certificates) to allow the issuing of the certificates referred to in art. 154-*bis* of the TUF. In addition to the documents mentioned above, the internal control system for financial reporting consists of the manual of group accounting standards, the guide to the closure of the consolidated financial statements and the checklist for the collection and processing of accounting data at the end of the period.

The definition of the Acea model is based on the principles set out in the COSO Report, supplemented by the principles of the COBIT framework with regard to the design and operation of IT controls.

The Board of Statutory Auditors has read the the Financial Reporting Officer's plan for independent tests, both manual and automatic, prepared on the basis of the statements made by process managers, and to obtain an independent verification able to guarantee effective execution of the controls, as well as their substantial efficacy.

The Board of Statutory Auditors has also taken note of the completion of the combined activities to update all administrative and accounting procedures.

The companies included in the "262 Model" have been identified as either quantitatively relevant (based on total assets, net revenues, net result) or qualitatively relevant. The relevant processes have been identified using as a quantitative parameter the "materiality" applied to the consolidated financial statements (based on pre-tax profit, total assets, shareholders' equity).

In 2020 the Group continued with its specific strategy for training employees on Acea's internal control system for financial reporting, which involved the provision of e-learning courses that were successfully passed by a significant percentage of participants.

The Board of Statutory Auditors has also noted the implementation of a dedicated IT platform, making it possible to supplant the significant amount of manual activities included in the previous system used to manage information flows within the Group.

Therefore, the Board of Statutory Auditors recommends that the Group continues to continually refine the current set-up of its administrative accounting system, in terms of accounting policies, processes, and procedures and the organisational, IT and data governance structures.

During periodic meetings with the Board of Statutory Auditors for the purpose of exchanging information, as in the "Report on the Financial Reporting Officer's activities to prepare accounting and corporate documents to issue the declaration established under art. 154-bis of the TUF on the annual financial report at 31 December 2020", the Financial Reporting Officer did not report any significant shortcomings in the operating and control processes that could affect the opinion on the adequacy and effective application of the administrative-accounting procedures, in order to provide a correct economic, equity and financial representation of operations in accordance with international accounting standards.

Based on the work done, having also taken into account the results of the testing carried out in accordance with the monitoring plan of the system of controls on the financial reporting process, as well as the areas of improvement identified in the activities carried out for the purposes of the relevant declarations, the latter signed the declaration of the separate and consolidated financial statements as at 31 December 2020 pursuant to art. 154-bis of Italian Legislative Decree no. 58/98.

During the periodic meetings held to exchange information, as well as in the additional report prepared pursuant to art. 19 of Italian Legislative Decree no. 39/2010, the Statutory Auditor in turn did not report any significant critical aspects of the internal control system relating to the financial reporting process.

In the light of the information received and the documents examined, having noted the activities under way, considering the support that will be provided to the Financial Reporting Officer appointed by the Internal Audit Function, who has specialist IT skills available to verify the design and functioning of the IT General Controls, the Board of Statutory Auditors has no observations to make to the Shareholders' Meeting with reference to the administrative accounting system.

9. Supervision of the non-financial reporting process

As part of the responsibilities assigned to it, the Board of Statutory Auditors has monitored, including through periodic meetings with relevant structures and with the Auditing Firm, observance of the provisions found in Italian Legislative Decree 254 of 30

December 2016, in particular with reference to the preparation and contents of the Non-Financial Declaration.

To that end, having examined the declaration made by the Auditing Firm pursuant to article 3, paragraph 10 of Italian Legislative Decree 254/2016 and the declaration made by the same relative to Report on the Consolidated Financial Statements pursuant to article 4 of the CONSOB Regulation implementing the above Decree, the Board did not identify any issues of non-compliance and/or breach of the reference regulations.

In fact the Declaration was subject to a limited audit by PriceWaterhouseCoopers S.p.A., which issued a statement regarding the conformity of the information provided with respect to the requirements of Italian Legislative Decree 254/2016 and with respect to the standards and methods established in the accounting standards adopted.

The auditor also carried out sample checks on the processes that support the acquisition and consolidation of the quantitative and qualitative data set out in the statement and substance tests on the performance indicators (KPIs) defined according to the standards adopted or defined by the Group (GRI).

Relative to the Suggestions Letter prepared by the Auditing Firm after its activities involving the Non-Financial Declaration for the year 2019, the Board of Statutory Auditors verified that the recommendations contained therein were duly considered by the Company's structures when preparing the Non-Financial Declaration for the year 2020.

In the course of meetings with the management responsible for preparing the documentation in question, the Board of Statutory Auditors was informed of the corporate scope of the statement and received full information on the various stages of the process that led to the development of the materiality matrix (noting the selection of the GRI standard indicators applied by the Acea Group in its non-financial reporting).

The subject of a specific procedure, this process aims to identify the main financial, governance, social and environmental issues (so-called "material" issues) related to the company's business and to define their prioritisation on the basis of the assessments expressed by stakeholders and the company.

Besides being a strategic reference, the identification of the "Acea materiality matrix" through direct discussions with the stakeholders is necessary to identify the aspects to be included in the sustainability report in greater or lesser depth depending on the results of prioritisation, and to select the indicators required by the adopted standards.

The procedure “Defining the scope of the consolidated non-financial declaration (Legislative Decree 254/2016)” establishes that through acquisition of data and information relative to the interim report at 30 September and information pertinent to the same management period coming from other sources of company information, the corporate scope for the non-financial declaration must be processed and defined by November.

To that end, in 2020 entries of new companies within the NFD perimeter were assessed, calibrated and weighted on the basis of their importance to the Acea Group's strategic and operating prospects, guaranteeing balanced presence for the industrial areas being developed: the water segment; environment segment; business development strategies, production and foreign; commercial and trading.

The Board of Statutory Auditors highlights the work carried out by the Company to ensure consistency between the UN Sustainable Development Objectives ("Agenda 2030"), the value guidelines expressed in the Acea Code of Ethics and the Group's strategic objectives. To that end, before beginning activities to prepare the NFD for 2020, information about the GRI standards, their development and assessment of the new specific standards which must be applied as of the reporting cycle for 2020 was obtained from the relevant internal structures.

In line with its business and sustainability strategy, during 2020 Acea approved the 2020-2024 Sustainability Plan.
In particular, the general operating structure of the Sustainability Plan was confirmed, with 5 macro-objectives, 15 areas of action and 25 operating objectives. On the other hand, the specific targets associated with each of the 25 operating objectives were reviewed and revised, for a total of 125 targets, with specific targets (and KPIs) assigned to individual Acea departments and to Group companies within the scope of consolidation.

In this regard, the Board of Statutory Auditors holds it particularly important that sustainability aspects be progressively incorporated into the management of the company, taking into account both the sustainability aspects related to strategic planning for business areas and the inclusion of ESG objectives in the incentive plan for management.

In this sense, an integrated expression of the Group's strategic, business and sustainability objectives was judged to be very important, with simultaneous emphasis of both aspects linked to the economic solidity of business growth and of the social and environmental results expected, in the framework of relevant UN sustainable development goals (SDGs).

In the opinion of the Board of Statutory Auditors, the issue of climate change is of particular importance and represents one of the elements demanding the greatest attention from a social, environmental and economic point of view, as evidenced by the positions expressed by the European Union or by qualified international bodies, like the TCFD (Task Force on Climate-related Financial Disclosures) set up within the Financial Stability Board.

Particularly important for the Board of Statutory Auditors is also the implementation in most of the Group companies of suitable integrated management systems certified according to UNI EN ISO standards, monitored by the Quality, Environment, Safety and Energy Function of Acea S.p.A., which facilitates environmental compliance and a sustainability policy that guides the Group's approach to respect and protection of the environment, also in line with the principles specified in the Code of Ethics.

10. Supervision of the adequacy of the internal control system, risk management and organisational structure

A. Internal Control System

Acknowledging the contents of the Corporate Governance Report on the adequacy and effective operation of the internal control system, the Board of Statutory Auditors reviewed the 2020 Reports of the Internal Audit Function and the Control and Risks Committee.

In particular, the Board of Statutory Auditors points out that during the year:

- The necessary functional and informative liaison was maintained with the Control and Risk Committee, the Supervisory Board and the Heads of the Internal Audit and Risk & Compliance Functions on the methods of carrying out the assessment, supervision and control tasks entrusted to them, relating to the adequacy, full operation and effective functioning of the internal control and risk management system, as well as the results of the audits performed by the Internal Audit Function in accordance with the audit plan approved by the Board of Directors and the results of the risk assessment carried out by the Risk Management Function;
- It noted that the Control and Risks Committee issued the relevant opinions, as required by the Code of Conduct for Listed Companies, without finding any critical issues to be included in this report.

Acea adheres to the Corporate Governance Code for listed companies and, on 16 December of the previous year, the Board of Directors favourably evaluated the adoption of the new Corporate Governance Code, authorising the Chairperson, in coordination with the Control and Risks Committee, and making use of the relevant functions, to proceed in coming months to carry out all necessary research and identify the actions deemed necessary for suitable implementation of the principles and recommendations contained therein.

Acea has adopted an Internal Control and Risk Management System (hereinafter also referred to as the "System" or "SCIGR") consisting of all the people, tools, organisational structures, rules and regulations designed to enable the Acea Group to be managed soundly, correctly and consistently with corporate objectives through an adequate process of identification, measurement, management and monitoring of the main risks.

The Manager of the Internal Audit Function has periodically updated the Board of Statutory Auditors on the activities carried out and the main results of the audits performed, communicating the corrective actions identified and shared with the Company's management, indicating implementation deadlines and specific implementation responsibilities.

The documents presented during the periodic exchange of information with the Board of Statutory Auditors summarised the results of the audits carried out – both planned and on request – underscoring the macroprocesses analysed, the companies involved and the audit team's summary opinion on the process control system for each audit. For each completed audit, based on the findings, suggestions and recommendations improvement plans were issued by the managers of the processes analysed and the companies concerned, complete with the responsibilities and timing for each activity. Their implementation by the agreed deadline is considered essential and not postponable by the Board of Statutory Auditors.

The Board of Statutory Auditors has taken note of the Internal Audit analysis done for the overall Internal Control and Risk Management System, for the purposes of assessing its suitability, taking into account:

- the existence and functioning of the components (control area, risk assessment, control, monitoring and review activities) included under the Internal Control framework, published by the Committee of Sponsoring Organizations of Treadway Commission (CoSO);
- guiding, control and monitoring activities for second level controls carried out by company structures other than those in which the risks are managed;
- the structure, functioning and results of activities carried out by the Internal Audit Function during 2020;
- interactions and exchanges of information between the Internal Audit Function and various control structures established within the corporate structure, including the Board's internal Control and Risk Management Committee, the Board of Statutory Auditors and the Supervisory Body.

The SCIGR assessment therefore takes into account not only the individual areas of improvement identified during the audits performed, but also the projects launched by the Company in 2020, aimed both at strengthening the structural components of the Internal Control and Risk Management System and at incorporating these elements into the more general organisational and corporate governance structures.

Even if the analysis done indicates that the gaps identified did not lead to situations that could damage the strength of the Internal Control and Risk Management System adopted by Acea S.p.A. and its subsidiaries, which is therefore suitable and operational as a whole, even if there are areas for improvement in terms of the design still being resolved, the number and structure of the corrective actions identified during the audit activities (not yet complete) make it necessary to define them upon completion of the Group's ERM Governance and Regulation projects currently being implemented.

In fact, to that end, the Company has:

- Assigned specific responsibilities regarding the design, implementation and updating of the Group's Governance model and related processes to the Risk & Compliance Function in order to standardise company processes and allow the achievement of the performance targets, in compliance with current regulations and in accordance with market best practices. the objective of the Function is to obtain a clear definition of the Acea Group's governance model, which serves as the foundation for the consequent comprehensive standardisation of company processes, to be correlated with the relative risks in line with the organisational structure;
- defined, with the assistance of an independent consultant, an ERM Programme based on the COSO framework "Enterprise Risk Management (ERM) - Integrating with Strategy and Performance", which is designed to represent the type and severity of the main risk scenarios – including sustainability scenarios – in terms of probability and economic-financial and/or reputational impacts that could jeopardise the achievement of the Group's strategic and business objectives, as well as address the resulting additional mitigation actions.

In this light, sharing and appreciating the initiatives begun by management, the Board of Statutory Auditors recommends prompt completion of the same.

In fact, full resolution of certain areas for improvement identified in the audits of the overall internal control system must consider, in the Board of Statutory Auditors' opinion, a strategic decision regarding the placement of decision making points, control safeguards and the relative responsibilities in the relationship between the parent company and its investee companies, with reference to which it is important for the Board of Directors to indicate its own strategic stance relative to the Group's governance model.

The Board hopes that coordination is promoted between control safeguards, both with reference to planning activities and, above all, through the ever increasing integration and efficacy of reporting to the Corporate Bodies on findings resulting from audits performed. To that end, it holds that initiatives to homogenise and coordinate control safeguards should be implemented including, in particular, the approval of a shared methodology used to assign scores to findings and corrective actions identified. This activity, together with massive analysis of gaps already begun to homogenise scoring, could be used to prepare an integrated Tableau de Bord for all Control Functions (including the Financial Reporting Officer, including the insertion of suggestions made in the Management Letter), is an important objective to be achieved with an eye to avoiding overlaps and making the process of monitoring corrective actions more efficient.

The process should also call for the creation of an integrated application platform, to guarantee a uniform approach to the collection and sharing of data resources by each Function, and to offer organic reviewing of information flows (between departments and to Bodies/Committees).

These could be the objectives for an Internal Control System Coordination Committee, to which the results of audits could be reported, as well as evaluation of residual risks and, more generally, assessment of the adequacy of the SCIGR.

Internal Audit, which will develop a 2021 audit plan which will consider aspects regarding emerging trends and risks, significant organisational changes, the Group's main operations and ascertainments of operational irregularities and external fraud, has continually evaluated the overall strength of the Group's Internal Control System, while also considering operating solutions (smart working and an increase in remote operations by customers) and contingency processes activated to deal with the Covid-19 emergency. To that end, Audit has implemented, after the first total lockdown and based on a request from the Board of Statutory Auditors, a specific check intended to ascertain any impacts on the SCIGR deriving from the work methods of employees and interaction with customers during a health emergency. The results of this research did not identify any issues in terms of operational continuity or the application of controls.

In this light, the Board recommends the continuation of activities intended to investigate the automatic control system, already used during 2020 by the Audit Function. In fact, this area of development follows the opinion stated multiple times by the Board that the implementation of an evolved control framework, making use of new technology and tools for data analysis and processing, is the foundation for ever greater efficacy and predictive capacity in the Control System. The Board of Statutory Auditors therefore recommends continuing with the Digital Transformation project begun by the Internal Audit Function, intended to develop innovative models and solutions for continuous auditing of the Internal Control System, by identifying and introducing specific tools able to improve the efficacy and efficiency of the model and anticipate needs in supervisory plans.
This would mean going from mainly manual activities to audits which include the increasing use of data mining technologies, analytics (KRI and RPA) which allow for extended analysis of the population and the preparation of risk monitoring indicators (to be made available to process owners), with a team that includes various types of skills (audit, IT, business, data analytics).

At the same time, the Board recommends progressive strengthening of the first level control model. Also in the light of the results of checks and audits performed by the Audit Function, the Board has recommended that special attention be paid to the substance of controls implemented at the first level. In this context, it is important that a control culture be promoted, also by top management, not to be seen as a negative concept, but rather as a tool to support the business.

The Board of Statutory Auditors also notes a pilot project begun with the assistance of external consultants, intended to evaluate the expediency of digital developments and automation in processes relative to Italian Legislative Decree 231/01 and Italian Law 262/2005. The completed project noted the expediency of creating an overall strategy to deal with and reduce manual controls in terms of financial reporting, subsequently extending Robotic Process Automation (RPA) to other activities which are currently manual and could be automated.
This transformation process must be aimed at revising the current approach to and perception of internal audit activities in terms of people, methodology, communication and integration.

The Board of Statutory Auditors deems equally important the progress made in other projects in which the Internal Audit Function was involved in 2020, including:

- recognition of the design of the Entity Level Controls for the SCIGR of newly acquired or consolidated companies to identify possible opportunities for improvement in order to progressively align them with the ACEA control model, as a function of the complexity of each Entity;
- monitoring certain sensitive processes within the accounts payable cycle during the Covid-19 emergency to assess risk exposure to irregularities linked to new operating methods (smart working), by identifying and examining a set of Key Risk Indicators;
- support for the Financial Reporting Officer, through the specialist ICT Audit and FRO Support team, in the execution of checks relative to the Internal Control over Financial Reporting sector, for the purposes of Compliance 262/05;
- support for the Ethics Officer in the adoption of the ACEA Group’s whistleblowing platform;
- support for the 231 Supervisory Body in implementing the new information flows following the update to the Organisation and Management Model pursuant to Italian Legislative Decree 231/01.

As part of its supervisory activities, the Board of Statutory Auditors also considered the current effectiveness of the Acea Group's quality, environmental, safety and energy management system.

During 2020, the Integrated Certification Systems Unit of Acea S.p.A. performed audits on all processes included in the four management systems, as defined by the annual calendar of internal audits.

During these audits no particular critical issues were brought to the attention of the Board of Statutory Auditors, and the integrated quality, environment, safety and energy management system is assessed by the relevant function of the parent company as having been implemented, kept under control and adequate.

Similarly, the Board of Statutory Auditors supervised the issues related to safety at work in the Acea Group, in particular further assessing the role played by the parent company in Safety Governance (including through the adoption of safety management software, which the Board of Statutory Auditors recommends be promptly implemented), the trend of the accident indices and the existing cross-cutting initiatives/projects aimed at organisational well-being, the protection of diversity and the protection of disabilities. Special attention was obviously paid to provisions implemented by the Company to guarantee the health and safety of employees and all individuals who interact with the Group during the current health emergency.

During the periodic exchange of information with the Board of Statutory Auditors, the various company departments did not identify any critical issues to be included in this report.

The Board of Statutory Auditors particularly appreciated the management's handling of the current emergency crisis caused by the coronavirus, noting that the Group has taken prompt action, in some cases even prior to the relevant regulatory measures, to ensure the most complete protection of the health of its employees and the communities the Group operates in.

The Board of Statutory Auditors also found that in its internal processes the Company implements the measures envisaged by the Privacy Authority and acts in substantial compliance with the provisions of EU Regulation no. 679 of 27 April 2016 ("GDPR"), of Italian Legislative Decree no. 196 of 30 June 2003, as amended by Italian Legislative Decree no. 101 of 10 August 2018 and other applicable regulations on the protection of personal data.

The Board of Statutory Auditors noted that in the course of periodic discussions and in reports to the Board of Directors, the Data Protection Officer did not find any critical issues to be included in this report. In any case, note that the analysis done provides a picture of a privacy governance model that is still being strengthened in certain areas, even if its essential parts have been implemented.

Therefore, the Board of Statutory Auditors continues to believes that the protection of personal data held by the Acea Group is a founding value of the corporate identity, and as such it must necessarily become a constituent element of the management of the company's processes and procedures at all levels, with a widespread awareness among employees of the importance of what is needed for this purpose.

Additionally, the Board of Statutory Auditors favourably noted the attention paid the regulatory aspect by management, by establishing a dedicated company unit. The Board of Statutory Auditors met with the new manager of this Function, recommending that the unit continue to dedicate itself to supporting the growth of a regulatory culture within the Group and acting to achieve overall compliance assurance relative to company bodies.

With reference to the antitrust compliance programme, currently in its initial stages of implementation, during 2020 measures to strengthen and enhance company safeguards were developed, as well as improving awareness within the Group and its individual companies. At present almost all relevant Companies have approved their own Antitrust Compliance Programmes and appointed a local Antitrust Representative, in order to actively monitor antitrust risk identified at the Company level. Additionally, after analysing information flows, it was determined that the Companies, in preparation for approval of the Model, carried out Antitrust risk analysis and planned and/or implemented actions to mitigate and monitor these risks.

Based on the information examined, varying approaches were sometimes seen in the conduction of analysis, which while completely and accurately representing the risks and possible problems for a Company, may in any case be subject to further specific research with the Antitrust Representative to ensure alignment at the Group level.

To that end, the Board of Statutory Auditors notes that the Antitrust unit has scheduled implementation of all needed further improvement, corrective and/or update measures for the Programme (e.g. inclusion of further specific safeguards within the processes most exposed to Antitrust risk and periodic training updates for Company personnel to ensure continued dissemination of knowledge on relevant regulations and jurisprudence).

With reference to the activities of the Ethics Officer, responsible for monitoring compliance with the values of transparency, legality, fairness and ethical integrity in relations with employees, suppliers, customers and all stakeholders, as well as the adoption of an open, transparent and confidential system that allows anyone to contact this Ethics Officer and report alleged violations of the Code of Ethics ("Whistleblowing" system), the law, the internal rules governing the Group's activities and any conduct in violation of the principles of conduct that the Acea Group has given itself.

The Board of Statutory Auditors has noted that, after completion of the associated project activities, a specially designed IT platform was implemented to manage whistleblowing.

This platform uses an advanced encryption system for communications and its database to guarantee compliance with regulatory standards, confidentiality for whistleblowers, secure filing of documents sent and uploaded to the system and confidential management of analysis and other processes. The platform was designed and implemented for this type of notification, in line with Acea’s governance rules, based on a multi-channel logic. In fact, it has an automatic system which directs notifications allowing activation of the appropriate transmission channel after the theme of the notification and the relevant company have been identified.

Communication programmes and training activities were activated to further disseminate the principles contained in the Code of Ethics and support the adoption of a whistleblowing system within the Companies of the Group, promoted by the Ethics Officer. This included an initial communication campaign, "I protect the Company that protects me", which aimed not just to inform and improve the awareness of Acea Group employees about the Code of Ethics, but also to support and incentivise whistleblowing and use of the new dedicated platform as a positive tool to protect people and combat actions which violate that established in the Code of Ethics.

During the period, various notifications of presumed violations of the Code of Ethics were received the platform, for the most part identified as "no evidence and/or non-verifiable", which were then archived. Three notifications were classified as "non-inherent", in that they were linked to cases of a technical/commercial nature. These were filed and sent to the relevant structures of various Group companies for handling, with a later report to the Ethics Officer. On the other hand, three notifications were classified as "inherent". Of these, one was deemed unfounded, another was filed, and another was deemed founded and the relative company has begun proceedings against the individual identified.

The Board of Statutory Auditors has continually guaranteed communication of information with the Supervisory Body. In particular, the Board of Statutory Auditors agrees with the recommendation made by the Supervisory Body to promptly complete the activities begun to update the Model to comply with regulatory and organisational changes.

B. Risk Management System

Acea S.p.A. has put in place for some time now a system aimed at allowing the main risks relating to the Company and its subsidiaries to be correctly identified, as well as adequately measured, managed and monitored, with the aim of determining the degree of compatibility of these risks with a management of the company consistent with its strategic objectives.

In this light, with the support of a leading consultant, the Company has begun an Enterprise Risk Management programme with the aim of further improving the tools and methods used to support the process of identifying and measuring business risks.

The project's objectives are:

- strengthening areas inherent to risk governance, developed parallel to a comprehensive project to revise processes and procedures;

- The assessment, review and development of current risk analysis tools and methods with the introduction of new quantitative methods and reporting models to top management;
- The development and implementation of staff training plans.

This project initially enabled the relevant ERM Function to carry out a complex Group risk assessment process, identifying the main business risks the Acea Group is exposed to, the current methods of managing them and the further mitigation actions proposed by management.

After the Group risk assessment, a report was produced for the company bodies which illustrated the main risks the Group is exposed to, current methods used to manage them and possible additional mitigation actions proposed by management. The methodology and metrics used (economic/financial or reputational impact clusters, probability) made it possible to identify and assess a combination of risk scenarios falling into given clusters, indicating the level of severity. The classification of "Top Risks" was given to those underlying these risk scenarios, as a function of the level of severity. For these "Top Risks", a series of possible further mitigation actions were identified by management, when possible, so as to reduce the severity to a lower level. The Board of Directors held that these "Top Risks", due to their nature and level of severity, after possible further mitigation actions proposed by Management, are compatible with business management in line with the Group's strategic objectives as outlined in the 2020-2024 Business Plan, authorising the Chief Executive Officer, through the relevant structures, to develop the further mitigation actions to implement relative to these "Top Risks" and to monitor progress in implementation of the same, periodically reporting to the Control and Risks Committee.

The Board of Statutory Auditors has followed this process since its start in 2019, with certain preparatory activities completed in 2020.

In fact, project completion requires the definition of a Risk Policy and Key Risk Indicators able to offer quantitative structuring of company risks, essential elements for implementing an ACEA Risk Appetite Framework to be submitted to the Board of Directors for approval, after evaluation by the Control and Risks Committee.

The RAF represents an element required for the preparation of a Budget at Risk, an additional step in the activities in progress and held to be absolutely essential by the Board of Statutory Auditors.

In this light, the Board of Statutory Auditors notes completion of activities relative to methodologies and application tools for reporting activities relative to top management, and the insertion of ERM content in the Non-Financial Declaration, but recommends that the above activities needed to complete the project, which was begun in 2019, be completed in 2021.

The Board of Statutory Auditors also recommends that current activities to implement dedicated software be promptly completed, aimed at carrying out the entire Group risk assessment process through a dedicated platform.

Completing the process of managing and monitoring the Group's risk indicators and activities linked to the same would also allow periodic executive reports for company bodies (Dashboard) which, combined with the completion of the detailed methodologies inherent to M&A@Risk and Budget@risk processes, would permit the definition of Board of Directors decision making processes based on expected risk/return.

This involves implementing in 2021 reports inherent to risk exposure models and metrics, making the reports going to the Company Bodies (among others) more complete, timely and comprehensible, with the aim of further increasing the knowledge of their members in terms of the risks taken on, also in relation to business and operational decisions.

The adoption of an M&A framework for risk analysis, both during the preliminary and Due Diligence stages with regards to the company to be acquired, would in fact offer support for decision making with risk-informed analysis, developed in an integrated manner, strengthening assessments of extraordinary transactions by acquiring useful data and information about the complexity and costs of the post-closing integration plan for companies acquired by the Acea system.

Finally, the Board of Statutory Auditors once again notes its conviction that, as Acea has a significant presence in the management of regulated strategically important infrastructure for the provision of essential public services in the communities it serves, and as it has developed significant projects intended to reduce the inherent risk of this strategic infrastructure, it is necessary for the relevant Public Authorities to promptly complete the relevant research processes to grant authorisations to the Acea Group to develop new strategic infrastructure, of extreme importance for the continuing operation of essential public services, so as to allow the concessionaire the opportunity to make full use of its technical and operational potential to serve its communities.

C. Organisational Structure

The Board of Statutory Auditors examined the documentation concerning the overall organisational structure of Acea S.p.A..

The Board of Statutory Auditors therefore noted the existence of:

i. An organisational chart and related company documentation detailing the roles and responsibilities of the organisational structures;

ii. A structured system of delegations exercised in accordance with the roles and powers assigned to each of the functions/committees involved;
iii. Corporate regulations for the exercise of governance by Acea S.p.A. as part of its functions of guidance, coordination and control of the Group's legal entities;
iv. Company regulations for the performance of the activities of each managerial function.

The Board of Statutory Auditors stressed the importance of ~~prompt~~ completion of ongoing activities for the overall revision of the system of governance of internal rules. An activity aimed at regulating the drafting, approval and management of the internal rules governing the company's activities and processes in a more effective and uniform manner. An objective to be achieved through a clear procedural management model in the hierarchy of sources and consequent responsibilities. Ensuring on the one hand that the internal rules are consistent with the risk and control system through the precise verification of the effectiveness and efficiency of the control mechanisms inherent in the various control models envisaged by the corporate governance, and on the other hand a precise, exhaustive information flow of controls and governance between the parties involved.

Similar attention should be paid to the development of the ACEA Group's organisational model and the method of making use of the management and coordination powers and duties held by the Parent Company. This is in particular true in the light of the recent organisational change which created the organisational position of Chief Operating Officer.

Hence, current considerations being made regarding the methods for exercising management and coordination must be concluded, in respect for the corporate autonomy of investee companies. In fact, it is necessary to promptly proceed with a better clarification of the parent company's role of strategic guidance and governance in compliance with the principles of proper corporate management and entrepreneurial autonomy of directed and coordinated companies, including through a more complete definition of the Group's organisational architecture that better regulates the relationships between the bodies and organisational functions of the parent company and those of directed and coordinated companies, as well as the related information flows, including through a clear definition of the scope of governance and services carried out by the parent company.

Finally, in the organisational area, it is to be hoped that the Company makes use of the experience gained from the pandemic to further develop its digitalisation processes (including adequate personnel training, intended to support a radical change in the approach to work which goes beyond physical interaction with customers) and its technological tools (to support remote work and communication methods, already strengthened during the initial stages of the pandemic), all with an eye to respecting and promoting sustainability.

11. Remuneration policies

The Board has taken note of the Report on Remuneration, prepared pursuant to art. 123-ter of Italian Legislative Decree 58/98, art. 84-quater of the Issuers' Regulation and the relative Annex 3A, schemes 7-bis and 7-ter. This report, pursuant to art. 6.P.4 of the Corporate Governance Code, as well as principle XVI of the Corporate Governance Code, was approved by the Board of Directors based on a proposal from the remuneration committee.

The remuneration policy defines the criteria and guidelines for remunerating members of the Board of Directors, including Executive Directors and Directors with special, for Executives with Strategic Responsibilities and for members of the Company's Board of Statutory Auditors, over a period of time coinciding with the financial year in course.

This was prepared in compliance with the new regulatory framework (art. 123-ter, TUF), updated by Italian Legislative Decree 49/2019, which contains the provisions necessary for implementation of Directive EU 2017/828 of the European Parliament and Council of 17 May 2017 (SHRD II), which amended Directive 2007/36/EC (SHRD) relative to encouraging long-term commitment from shareholders.

Additionally, it was prepared in compliance with the contents of CONSOB resolution 21623 of 11 December 2020, which implemented that called for in SHRD II.

The report is divided into two separate sections. The first section details the Company's policy on the remuneration of directors, including those with executive or special duties, executives with strategic responsibilities and the Board of Statutory Auditors.

The second section, by name for members of the management and control bodies, and in aggregate for executives with strategic responsibilities, provides a representation of each of the items that make up remuneration, including the treatments envisaged in the event of termination of office or termination of employment, giving an account of the remuneration paid by the Company for the year 2020 for any reason or in any form.

The Board of Directors also approved changes to the short and long-term incentive system, with the aim of confirming and strengthening the presence of indicators linked to ESG objectives for management.

The short-term incentive model was also adjusted with the aim of guaranteeing an immediate correlation between the level of achievement for objectives and the amount of the variable compensation, a clear correlation between solidity performance and business growth and rigorous control over cost trends.

The incentive system was revised to focus on objective and measurable objectives, eliminating assessment of behaviours so as to guarantee a direct correlation between the results achieved (Group, company and individual) and the result of the assessment process.

The Board of Statutory Auditors also noted that the Appointments and Remuneration Committee examined the first results of the succession planning process in progress and aimed at meeting organisational needs, both in emergency and scheduled, also by creating career paths capable of developing people's ability to manage complex and changing situations and activities in an autonomous and proactive manner, paths that are considered by the Board of Statutory Auditors to be of the utmost importance given the function of ensuring the sustainability of the Group's top management culture over time.

From this point of view, the Board of Statutory Auditors notes how the recent health emergency related to the coronavirus and the related regulatory measures aimed at containing the spread of the epidemic have led to significant changes in the way in which work is carried out in companies, with an important increase in teleworking and the implementation of different ways of sharing experiences, information and decision making.

The Board of Statutory Auditors believes that these changes forced by the health emergency may also provide an opportunity to encourage a partial rethinking of the ways human resources are managed and therefore of the company's needs, with the related necessity to update both the organisational and management priorities (e.g. a strengthening of the company's information systems, the way they are connected, the need for operational continuity and the need for IT security of widespread systems), as well as the methods of human resources management, starting from the dissemination and maintenance of a uniform and shared corporate culture, where the company should over time assume more and more widespread neural forms of management of its activities and staff.

12. Corporate Information System

The Board of Statutory Auditors also paid particular attention to the various initiatives implemented by the Acea Group with regard to the development of the corporate information system and the protection of business continuity, with a particular focus on cybersecurity issues.

The security management model prepared by Acea provides for the adoption of a centralised governance of information security, managed in accordance with the national framework for cybersecurity and data protection.

From this point of view, the company's planning envisages an analysis and revision of the organisational model for the management of information security while maintaining respect for the autonomy and responsibilities of the various group entities, and as far as processes are concerned an analysis and revision of those that support the cybersecurity management model of Acea and the Group. It is also planned to identify and design technological components for the constant monitoring and management of the main security countermeasures on the network and system infrastructure.

In the opinion of the Board of Statutory Auditors, the resilience of the information system is of central importance. The Board of Statutory Auditors has therefore carefully monitored the assessment of infrastructure and applications, those relating to operational continuity and disaster recovery, and recommends that the actions provided for in the ICT master plan – which it will carefully follow as it develops – be carried out on time with all the necessary resources allocated to the project.

In this light, the investments planned with the aim of achieving a comprehensive update of the Group's IT system are considered by the Board of Statutory Auditors to be of essential importance, to guarantee an ICT system that can fully support business and control activities, in order to avoid the adoption of organisational contingency actions, with impacts on both economic and human resources. The relevant company structures have performed the necessary assessments relative to architecture, infrastructure, data governance and data quality, processes, working methods and sourcing strategies, after which they defined improvement plans focussed on updating architecture, infrastructure and applications to accelerate digitalisation.

To that end, it should in any case be noted that the system has guaranteed continuity and reliability, also in the face of notable cyber attack attempts, also during the complicated period of the initial stage of the health emergency.

The IT security strategy adopted by the Acea Group, in line with that of other major industrial corporations, calls for integrated management of Information Security, ICT Security and Cyber Security. In particular, to achieve strategic objectives and regulatory compliance, Acea has developed a security management model that is divided into three areas: organisation, processes and technologies.

The initiatives identified relative to cyber security can be classified as either projects that are for the most part procedural/organisational or as those which are technological.

The Board of Statutory Auditors holds current activities regarding Business Impact Analysis to be of particular importance, intended to identify the impacts of an IT attack on business, in terms of the confidentiality, integrity and availability of information. This makes it possible to identify, analyse and define the areas of greatest risk for real business, to determine whether the protective activities in place are sufficient or require strengthening.

Of similar importance is the process under way to fully revise the entire regulatory system for the ICT area. The information security incident management procedure was reviewed in this light, as it manages the management of all IT security events and incidents which could have an impact on the IT infrastructure and productive systems of the Group, as well as the rights of the relevant interested parties.

The Board of Statutory Auditors hopes that the revision of the guidelines on measures for managing the security logic for information is also completed promptly, as these serve to govern processes and activities inherent to the macro-process of managing the security logic for information, establishing roles and responsibilities for those involved. This is currently in progress.

In this area, the operations of the Computer Security Incident Response Team (CSIRT) are also important. Among other things, they are responsible for ensuring real time monitoring of IT infrastructure and the public access data networks (e.g. Internet), to promptly identify potential threats and attacks for the Group, coordinating the necessary activities in relation to the CSIRT service, also for OT infrastructure.

The Board of Statutory Auditors also recommends that current activities regarding data driven management allows for the completion of activities in progress to create an Executive Dashboard, consisting of a series of performance and operational risk and control indicators intended to further facilitate immediate and periodic comprehension of the Acea Group's economic, financial and equity performance for the Board of Directors, as well as its operational trends in the main operating segments in which it works.

13. Further activities of the Board of Statutory Auditors and disclosure required by Consob

As required by art. 149 of the TUF, in the performance of its duties the Board of Statutory Auditors:

- Over saw the processes of effective implementation of the corporate governance regulations provided under the codes of conduct drawn up by regulated market management or by category associations with which Acea S.p.A. declares its compliance. Pursuant to art. 123-bis of the TUF and art. 144-decies of the Issuers' Regulation, Acea S.p.A. has prepared the annual "Report on Corporate Governance and Ownership Structure";
- It monitored the adequacy of the instructions given to subsidiaries pursuant to art. 114, paragraph 2 of the TUF. While appreciating the efforts made, the Board of Statutory Auditors nevertheless recommended to the relevant corporate functions of the parent company to direct the subsidiaries' boards of directors to fully approve and adopt all Group policies. To this end, the Board of Statutory Auditors recommended that the differences in interpretation and application made by the investee companies be carefully monitored, also calling for the completion of internal regulations through the issue of specific operating instructions;
- It exchanged information with the Boards of Statutory Auditors of directly controlled companies as required by art. 151, paragraph 2, of the TUF. In order to allow for this exchange of information, a questionnaire was sent to the control bodies of the subsidiaries concerning the supervisory activities carried out by them during 2020 and the performance of the company's business. From the analysis of these questionnaires, which were completed and returned by the control bodies of the investee companies, no reports were made or facts emerged worthy of note in this report.

The Board of Statutory Auditors has not received any communication and/or complaints, including those qualified as such under article 2408 of the Civil Code, other than those outlined in its report to shareholders the previous year.

During the course of the financial year, the Board of Statutory Auditors issued opinions and expressed the observations that current legislation assigns to its remit.

In addition, the Board of Statutory Auditors reports:

- it noted that the Board of Directors has positively assessed the adequacy of its size, composition and operation, also in light of the results of the self-assessment that was performed with the support of an external consultant, having met the required independence requirements;
- That, aside from board meetings, it attended off-site meetings and induction sessions. Given the complexity of the agenda of Board meetings, the Board of Statutory Auditors called for reflection on the best ways to simplify and rationalise an information flow that is sometimes too voluminous and unfocused and to improve coordination among the various bodies in the performance of their respective functions and responsibilities, with a view to optimising increasingly integrated governance, aimed at avoiding duplication of analysis and repetition of presentations and hoping for the necessary full focus of the Board on the strategic dimension;
- To have verified that its members meet the same independence requirements as those required of Directors in accordance with the recommendations of the Borsa Italiana Corporate Governance Code;
- To have found the correct application of the criteria and procedures adopted by the Board of Directors to assess the independence of its members on an annual basis.

No separate meeting of the independent directors was held during the year, as they considered it unnecessary in view of the quality of the information received from the delegated bodies and their active participation in the Board of Directors and in the Board Committees.

At present, the requirements of the Corporate Governance Code for Listed Companies for the establishment of the position of lead independent director are not met, given that the Chairperson of the Board of Directors does not hold the position of Chief Executive Officer and does not have a controlling interest in the company.

As a result of the supervisory activities carried out by the Board of Statutory Auditors, no reprehensible facts, omissions or irregularities have emerged that should be included in this Report.

The Board of Statutory Auditors does not deem it necessary to exercise the right to make proposals to the Shareholders' Meeting pursuant to art. 153, paragraph 2, of the TUF.

Conclusions

In view of all the above, considering the content of the reports prepared by the external auditor, having taken note of the declarations issued jointly by the Chief Executive Officer and the Financial Reporting Officer, to the extent of its remit the Board of Statutory Auditors has not found any reasons preventing the approval of the proposal for the individual financial statements at 31 December 2020 and the dividend distribution formulated by the Board of Directors.

Rome, 31 March 2021

Signed by Maurizio Lauri

Signed by Pina Murè

Signed by Maria Francesca Talamonti

This report has been translated into the English language solely for the convenience of international readers

Independent auditor's report

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

Acea SpA

Financial statements as of 31 December 2020

Independent auditor's report

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

To the Shareholders of
Acea SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Acea SpA (the Company), which comprise the income statement, statement of comprehensive income, statement of financial position as of 31 December 2020, statement of changes in equity, cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw your attention to paragraph "Trend of operating segments – Water Operating Segments" of the report on operations which describes:

PricewaterhouseCoopers SpA

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- The uncertainties regarding the subsidiary Acea Ato5 SpA linked to (i) the financial imbalance which arose following the Area Authority's approval of the 2020-2023 tariff structure by resolution no. 1/2021 which casts significant doubt on the company's ability to continue as a going-concern, (ii) the ongoing tax litigation and (iii) the complex in and out of court legal dispute with the Area Authority which is mainly related to the termination of the concession agreement, the approval of the 2016-2020 tariffs, the contractual penalties charged to the company for alleged non-fulfilments, the recognition of receivables related to higher operating costs incurred in the 2003-2005 period (as per the settlement agreement of 27 February 2007) and the determination of the concession fees;

- The complex regulatory measures, with particular reference to what lies behind the approval process of water tariffs.

Our opinion is not qualified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of the value of investments in subsidiaries and associates *Note 15 to the financial statements "Investments in subsidiaries and associates"* The Company recognised in the financial statements as of 31 December 2020 investments in subsidiaries and associates for an amount equal to Euro 1,840 million. Annually, the Company, in accordance with a specific internal policy, verifies the presence, if any, of impairment losses of investments in subsidiaries and associates in compliance with IAS 36 (impairment test), comparing their book value with their estimated recoverable amount measured through the Discounted Cash Flow method. Such verification is carried out on the main investments apart from the presence of any impairment indicators emerged during the year. With reference to the financial statements for the	We addressed our audit procedures in order to evaluate if the method to estimate the recoverable amount used by the Company was consistent with what is envisaged by IAS 36 and by the evaluation practice, verifying i) the appropriateness of the types of cash flows used and their consistency with the 2020-2024 Industrial Plan of the Group approved by the Board of Directors on 27 October 2020 and partially updated to take account of the events occurred between the date of approval of the Plan and the date of approval of the financial statements and ii) the mathematical accuracy of the quantification of the recoverable amount. In particular, our audit activities were focused

year ended 31 December 2020, the Company's management had recourse to an external expert to perform the impairment testing.

As part of our audit activities, we paid particular attention to the risk that there could be impairment losses in the abovesaid investments, inasmuch as the process for the estimate of their recoverable amount is particularly complex and based on valuation assumptions affected by future economic, financial and market conditions which are hard to forecast.

on the verification of the reasonableness of the main assumptions underlying the projected cash flows and the discount rates used to perform the impairment test (also through a comparison with the budget data deriving from external information sources, if available).

We compared the forecasts of the prior years with the corresponding final data and finally we verified the sensitivity analyses performed by the Company with particular reference to the subsidiary Acea Ato5 in light of the Area Authority's approval of the 2020-2023 tariff structure.

As part of our audit activities, we availed ourselves, where necessary, of the support of the PwC network experts in valuations.

We also assessed the independence, technical capabilities and objectivity of the external experts who were tasked with carrying out the impairment tests.

Finally, we examined the disclosures provided by the directors in the notes to the financial statements in relation to the above-described matters.

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

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

- we identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

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

On 27 April 2017, the shareholders of Acea SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

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

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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No.39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

The directors of Acea SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Acea SpA as of 31 December 2020, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Acea SpA as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Acea SpA as of 31 December 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Rome, 31 March 2021

PricewaterhouseCoopers SpA

Signed by

Massimo Rota
(Partner)

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

Certification of separate financial statements in accordance with art.154-bis of Legislative Decree 58/98
(Translation from the original Italian text)

1. The undersigned, Giuseppe Gola, as Chief Executive Officer, and Fabio Paris, as Executive Responsible for Financial Reporting of the company ACEA S.p.A., taking also account of provisions envisaged by Art.154-bis, paragraphs 3 and 4, of the Legislative Decree n°58 of 24 February 1998, hereby certify:

    - the consistency to the business characteristics and
    - the effective application

    of the administrative and accounting procedures for preparing the separate financial statements at 31 December 2020.

2. To this purpose, no significant issues were recorded.

3. It is also certified that:
    3.1 the separate financial statements:
        a) were drawn up in compliance the applicable international accounting standards recognised in European Community in accordance with EC regulation 1606/2002 of the European Parliament and the Council, of 19 July 2002,
        b) are consistent with the underlying accounting books and records,
        c) provide a true and correct view of the operating results and financial position of the issuer,

    3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 31 March 2021

signed by: Giuseppe Gola, The CEO

signed by: Fabio Paris, The Executive Responsible for Financial Reporting

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