



REPORT ON OPERATIONS

CORPORATE BODIES

Board of Directors¹

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

Board of Statutory Auditors

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

Financial Reporting Manager²

Fabio Paris

Auditing Firm

PricewaterhouseCoopers SpA

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

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

SUMMARY OF RESULTS

Income Statement data

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

EBITDA

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

Financial position data

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

Investments

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

Net financial debt

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

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

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

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

DEFINITION OF ALTERNATIVE PERFORMANCE MEASURES

On 5 October 2015, ESMA (European Securities and Markets Authority) published its guidelines (ESMA/2015/1415) on criteria for the presentation of alternative performance measures which replace, as of 3 July 2016, the CESR/05-178b recommendations. These guidelines were transposed into our system with CONSOB Communication no. 0092543 dated 3 December 2015.

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

1. for the Acea Group, the EBITDA is an operating performance indicator and from 1 January 2014 also includes the condensed result of equity investments in jointly-controlled entities for which the consolidation method changed when the international accounting standards IFRS 10 and IFRS 11 came into

force. EBITDA is determined by adding Operating profit/loss (EBIT) to “Amortisation, Depreciation, Provisions and Impairment”, insofar as these are the main non-cash items;

2. the *net financial position* is an indicator of the Acea Group’s financial structure, the sum of Non-current borrowings and Financial liabilities (excluding payables arising as a result of certain acquisitions during the two years 2019-2020) net of Non-current financial assets (excluding a part of Acea SpA’s receivables related to IFRIC 12 and securities other than equity investments), Current borrowings and Other current financial liabilities net of Current financial assets (including dividends to pay to Roma Capitale), and cash and cash equivalents;
3. *net invested capital* is the sum of “Current assets”, “Non-current assets” and “Assets and Liabilities held for sale”, less “Current liabilities” and “Non-current liabilities”, excluding items taken into account when calculating the net financial position;
4. *net working capital* is the sum of the current receivables, inventories, the net balance of other current assets and liabilities and current debts, excluding the items considered in calculating the net financial position.

SUMMARY OF RESULTS: ECONOMIC PERFORMANCE

Income Statement data

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

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

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

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

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

With regard instead to 2019, please note that:

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

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

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

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

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

At 31 December 2020 revenues from sales and services came to € 3,205.5 million, up € 183.6 million (+ 6.1%) on those of FY 2019, mainly due to the increase in revenues from the Integrated Water Service (+ € 128.8 million). This change is mainly due to: 1) the full consolidation of AdF for € 87.4 million (up to 7 October 2019 the Company was consolidated with the equity method), 2) Acea Ato 2 (+ € 25.9 million) as a result of the tariff increase determined following ARERA Resolution no. 580/2019/R/ldr – MTI-3, which for the year 2020 marks the beginning of the third regulatory period (four-year period 2020-2023) (+ € 62.0 million); this increase was partially offset by the changes introduced by the new tariff cycle which determined the non-recognition of the contractual quality bonus which was therefore zero compared to the same period last year (when it was € 35.8 million); adjustments deriving from pass-through items (electricity, system change costs, etc.) were also down by € 3.0 million.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SUMMARY OF RESULTS: TRENDS IN FINANCIAL POSITION AND CASH FLOWS

Financial position data

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

Non-current assets and liabilities

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

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

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

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

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

Investments

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

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

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

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

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

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

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

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

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

Group investments concerning shared IT infrastructure totalled € 50.8 million.

Equity investments and equity securities that do not constitute

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

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

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

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

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

Net working capital

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

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

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

(follows)

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

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

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

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

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

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

During the period the stock of trade receivables recorded a reduction of € 48.0 million compared to 2019 due mainly to offsets and collections (€ 91.5 million) as detailed above and to accrual at the same time of invoices to users in the period (€ 43.3 million). Financial receivables increased by € 5.9 million compared to the previous period, to be attributed to the combined effect of: 1) off-setting of financial receivables in February and September (as noted above), and 2) accrual of receivables related to the Public Lighting service agreement, to the modernisation of security, to extraordinary maintenance, to the LED Plan agreement and to the works relating to the Public Lighting service.

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

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

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

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

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

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

cal Committee drew up a report on the closure of the work, highlighting the results that emerged and proposing a favourable restart of the ordinary execution of the mutual obligations between the Acea Group and Roma Capitale.

As a first step after the completion of the work, the parties took steps to implement the results that emerged from the discussions, restarting the payment of their respective receivables and payables. In 2020 at total of € 33.3 million of receivables referred to the aforementioned Report were settled.

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

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

The following table presents an analysis of receivables and payables, including those of a financial nature, between Acea Group and Roma Capitale, as regards both net credit exposure and debt exposure, including financial items.

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

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

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

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

Shareholders' equity

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

Net financial debt

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

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

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

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

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

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

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

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

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

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

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

At 31 December 2020 the Parent Company had unused committed credit lines of € 500.0 million, uncommitted lines of € 558.0 million of which € 140.0 million used, as well as unused and available medium/long term loan lines of € 250.0 million. No guarantees were granted in obtaining these lines.

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

- Fitch “BBB+”;
- Moody’s “Baa2”

REFERENCE CONTEXT

PERFORMANCE OF THE EQUITY MARKETS AND THE ACEA STOCK

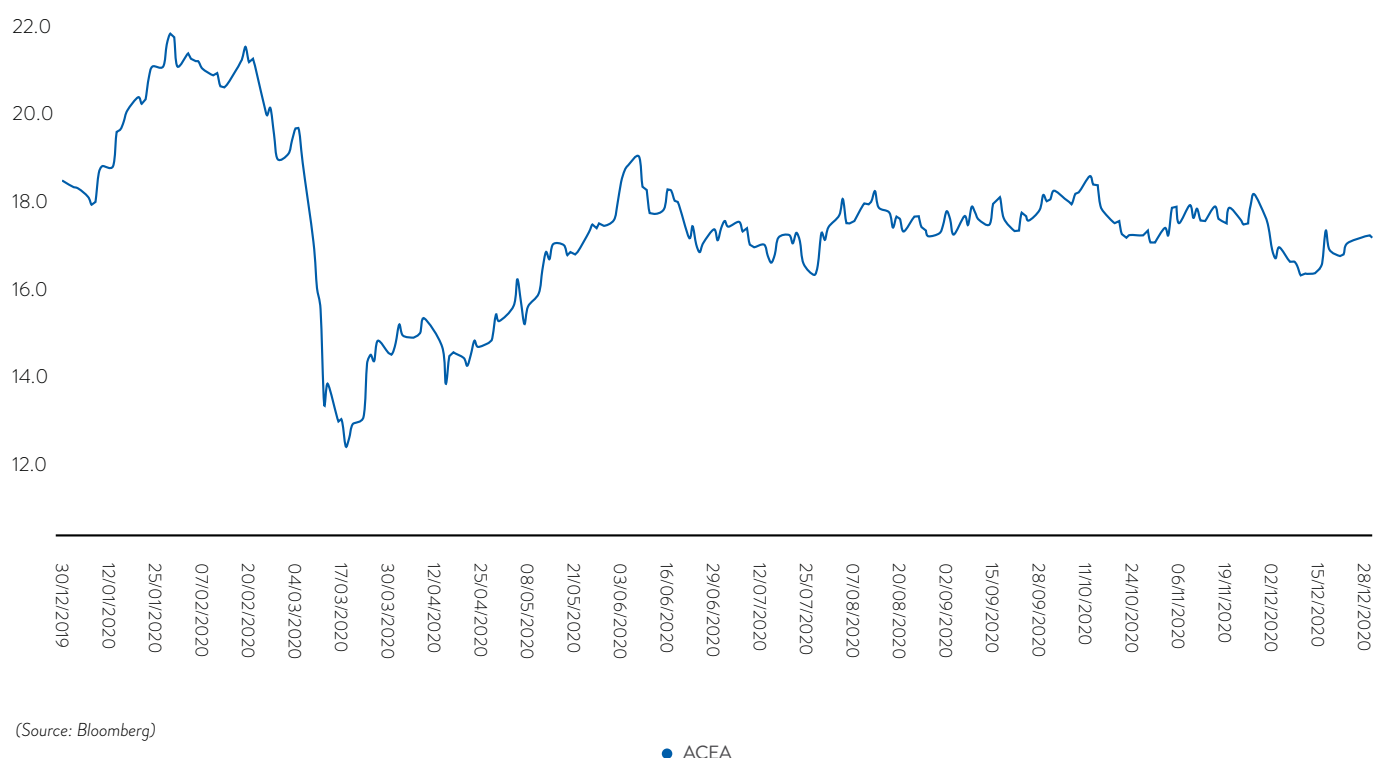
2020 was a year marked, at the global level, by the significant “health emergency” caused by the spread of Covid-19 which led to the deepest economic recession since the second world war. In this context, the international equity markets recorded divergent trends.

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

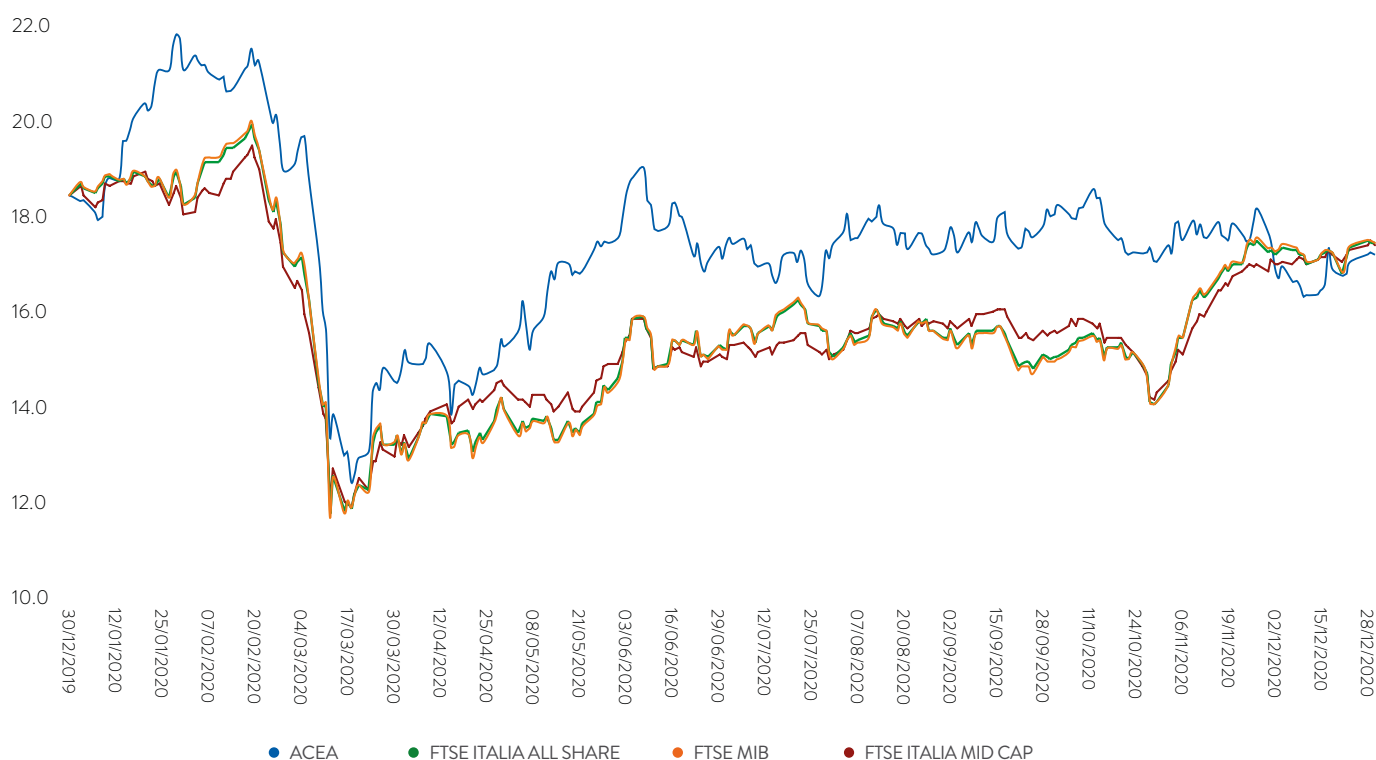
in the last months of 2020, thanks to the supporting actions resolved by the Governments and Central Banks and to the first vaccines against Covid-19 being made available.

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

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



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



(Chart normalised to Acea values – Source: Bloomberg)

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

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

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

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

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

ENERGY MARKET

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

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

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

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

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

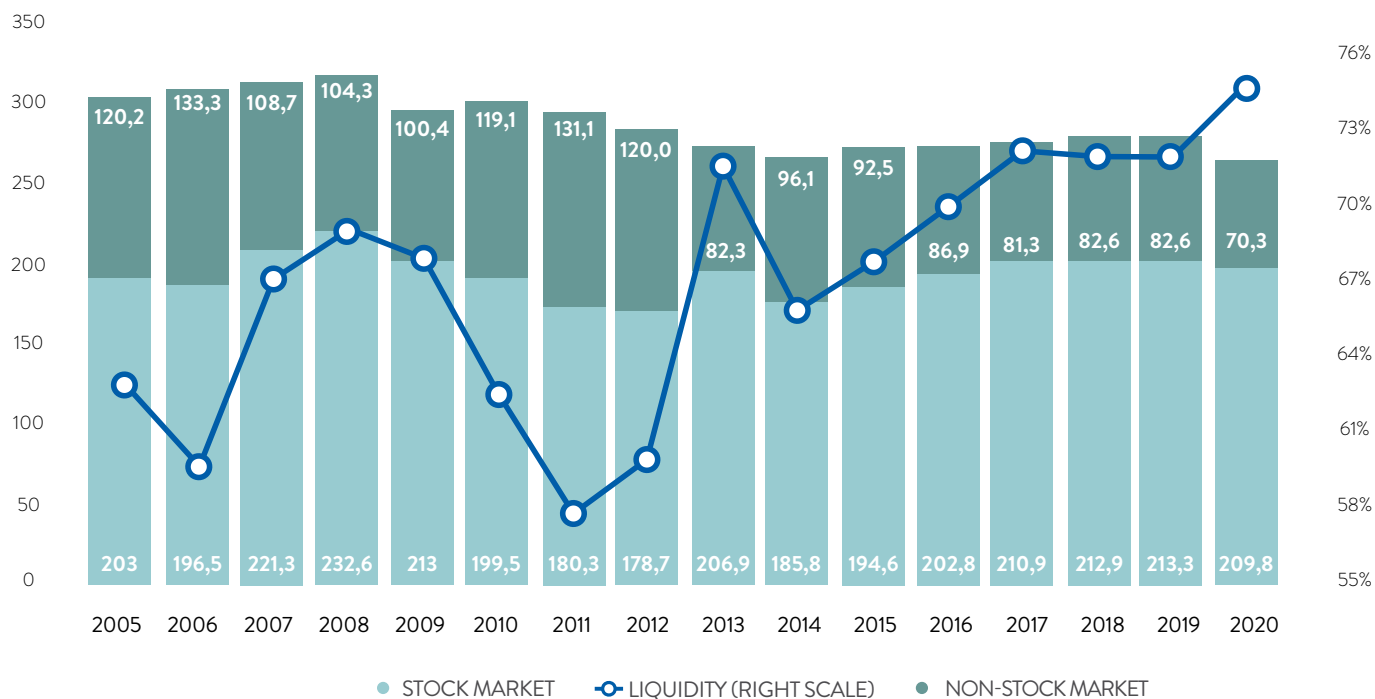
The net national production (273,108 GWh) showed a decrease of 3.8% compared to the same period in 2019. Specifically, energy produced by wind (-7.4%), energy produced by thermal sources (-6.4%) and energy produced by geothermal sources (-0.8%)

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

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

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

LIQUIDITY ON THE DAM³



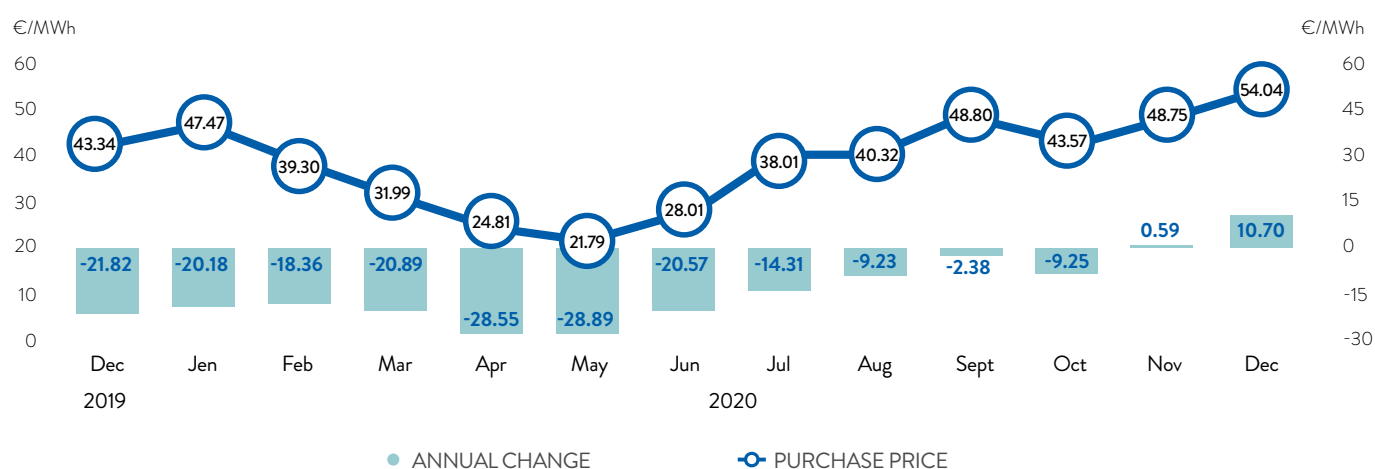
During 2020, the average energy purchase price (SNP) recorded an average of 38.92 €/MWh, a record low, down compared to 2019 by -25.6%.

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

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

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

DAM: SINGLE NATIONAL PRICE (SNP)³



³ Source: GME Newsletter, December 2020.

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

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

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

DAM: SELLING PRICES⁴



TARIFFS FOR TRANSPORT SERVICES

2020 was the fifth year of the new regulatory period, the term of which has been increased from four to eight years (2016-2023) divided into two sub-periods.

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

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

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

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

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

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

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

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

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

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

⁴ Source: GME Newsletter, December 2020.

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

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

In the year t , the ARERA only recognises the remuneration of the invested capital concerning the assets which entered use in the year $t-1$, without recognising the relevant depreciation rates (which are still recognised in the year $t-2$).

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

With Resolution 639/2018/R/com of 6 December 2018, ARERA updated the values of the parameters used to calculate the rate of return on net invested capital (WACC) for the three-year period 2019-2021, establishing a value of 5.9% for the distribution service.

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

In terms of operating costs, the new company-based tariff covers the specific costs by means of a national average cost adjustment coefficient, calculated by the ARERA on the basis of actual company costs and on the basis of scale variables.

These costs, when calculating the company-based tariff, according to the definitions of Resolution no. 568/2019, are supplemented by flat rate connection contributions acknowledged throughout Italy, and will be considered as other grants and no longer deducted from operating costs.

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

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

- the portion of the tariff covering operating costs will be updated using the price cap mechanism (with a productivity recovery target of 1.3%);
- the part covering the costs concerning the remuneration of the invested capital will be updated through the deflator of the fixed gross investments, the change in the volume of service provided, the gross investments that are operational and differentiated by level of voltage and rate of change connected to the increased remuneration recognised for incentivised investments;
- the part covering the depreciation will be updated through the deflator of the fixed gross investments, the change in volume of service provided, the rate of change connected to the reduction in the gross invested capital due to disposal, withdrawal and end of useful lifetime and the rate of change connected to the investments that are now operational.

ARERA confirms for 2020 the mechanism, already introduced in the third regulatory period, for the higher remuneration of certain categories of investments made until 2015, not extending this mechanism also for the 2016-2023 cycle.

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

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

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

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

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

- equalisation of the revenues from the distribution service;
- equalisation of the transmission costs;
- equalisation of the value of the difference between effective losses and standard losses.

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

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

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

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

On 19 December 2019, Resolution no. 559/2019/R/eel confirmed the standard loss values to be applied to withdrawals, injections and interconnections between networks referred to in Table 4 of the TIS for the year 2020.

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

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

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

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

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

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

In the new Transport Integrated Text, the ARERA has confirmed the mechanism of advance recognition on a two-monthly basis, of equalisation balances for revenue from the distribution service and transmission costs. With Determination 19/2020 of 13 November 2020, ARERA defined the operating methods of managing the general equalisation mechanisms, confirming the method of calculating the advances every two months.

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

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

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

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

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

The Measurement Integrated Text (TIME) governs tariffs for the metering service, divided into meter installation and maintenance, taking meter readings, confirming and recording readings. The structure of the fees has been confirmed with respect to the previous regulatory period.

ARERA confirmed the method of recognising the capital costs for low voltage electronic meters, for firms serving more than 100,000 points of delivery, based on criteria for determining the investments effectively made by the single firms and retaining the criterion of calculating the measurement service tariffs on the basis of

the national costs for the remote management systems and the electromechanical devices still being used (residual cost), also retaining the measurement equalisation for the fifth regulatory cycle. The equalisation mechanism is intended to equalise the revenue from the comparison of the obligatory tariffs billed to end users and the revenue set in the reference tariff.

The tariffs hedging the measurement service are updated, as are those for the distribution service, using the price-cap mechanism for the part hedging the operating costs (with the goal of a 0.7% recovery of productivity) and with the deflator, variation in invested capital and rate of change of the volumes supplied for the part covering the invested capital and depreciation. The rate of remuneration of the measurement capital is the same as that for the distribution service.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The “Integrated Text on provisions of the Authority on the economic conditions for providing connection services (TIC)”, annex C to Resolution 568/2019/R/eel, governs the economic terms for the provision of connection services and specific services (transfers of network equipment requested by end users, contract transfers, disconnections, etc.) to passive users, essentially in line with the previous regulatory period.

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

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

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

THE ITALIAN WASTE MANAGEMENT MARKET

The current situation of production and treatment capacity for waste in the traditional operational areas of the Acea Group and in the neighbouring areas shows a high “potential demand” for waste management (disposal in landfills, waste-to-energy, composting and biogas production, sludge and liquid waste treatment, recycling of mixed materials and production of secondary raw materials). This is facilitated by a national regulatory framework that provides incentives and by the regulatory support of European directives on the recovery of materials and energy, as well as by the implementation of the European Union’s policy guidelines on the circular economy (closing the loop), which are being implemented in Italy by virtue of a delegated law that has given the government the obligation to update environmental legislation adapting it to the new EU standards.

Opportunities for developing the sector are therefore highlighted, also facilitated by the availability of new technologies (for example in composting) and by possible forms of industrial integration with other operators.

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

WATER REGULATION

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

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

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

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

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

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

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

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

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

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

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

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

TARIFF METHOD – THIRD REGULATORY PERIOD

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

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

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

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

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

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

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

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

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

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

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

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

TECHNICAL QUALITY

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

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

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

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

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

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

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

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

CONTRACTUAL QUALITY

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

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

Biennial limitation

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

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

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

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

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

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

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

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

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

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

SOCIAL WATER BONUS

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

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

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

The measure updates the Integrated Text on the methods for applying the social water bonus for the supply of water to economically disadvantaged domestic users (Resolution 897/2017/R/idr as amended, annex “A” – **TIBSI**) in accordance with article 57-bis of Italian Law Decree no. 124 of 26 October 2019, converted with amendments by Italian Law no. 157 of 19 December 2019. In particular, the recognition of the social water bonus is regulated for residential domestic users benefiting from guaranteed minimum income or guaranteed minimum pensions, in addition to those suffering economic and social hardship for whom it was already envisaged.

The measure also modifies the quantification of the bonus (for which the variable unit portion of the sewerage and purification fee is added to the preferential tariff-variable water quota) and the total charge of the UI3 component, which is also calculated for the sewerage and purification services. The new provisions will apply from 1/1/2020.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARREARS

Emergency regulations on arrears:

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

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

Temporary non-application of the rules on credit protection

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

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

Establishment of the Covid-19 emergency account

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

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

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

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

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

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

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

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

WATER WORKS GUARANTEE FUND

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

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

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

NATIONAL WATER PIPELINE PLAN

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

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

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

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

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

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

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

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

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

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

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

METERING

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

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

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

TARIFF SEGMENTATION – INDUSTRIAL WASTEWATER

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

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

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

UNBUNDLING

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

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

SEISMIC EVENTS

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

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

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

CONSUMER PROTECTION

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

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

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

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

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

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

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

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

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

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

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

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

AUTHORITY CONTRIBUTION 2020

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

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

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

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

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

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

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

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

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

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

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

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

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

Under their own responsibility and based on specific certification by the relevant offices, the Municipal Administrations also have the power to authorise the supply for individual users in situations of proven particular economic/social hardship, increasing the ISEE threshold for admission for this specific case. The amount of the “local” bonus, consisting of the payment of a one-off annual contribution recognised in the bill (in the case of indirect users in the apartment building utility bill), is calculated as the expenditure corresponding to the fixed and variable fees for water, sewerage and purification for a consumption of up to 40 cubic metres per year for each member of the household, for direct and indirect users with ISEE up to € 8,265 and 20 cubic metres per year for each member of the household for other eligible users. The bonus is valid for one year and is paid in a single payment, normally within 6 months from the date of submission of the application (which must have been submitted by 31 December 2019).

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

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

In fact, note that:

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

UPDATE ON APPEALS AGAINST THE ARERA TARIFF REGULATION

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

At the public hearing held on 29 September 2015, the suspension of the pending judgement and the postponement of the decision to a later date were ordered. This followed the outcome of the technical office consultancy arranged for the appeals proposed in 2014

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

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

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

Following the hearing, held as planned on the scheduled date, the Council postponed the discussion of the judgement, inviting the parties to file some briefs (to be presented by 19 December 2018) to make sure that there were no delays in resuming the appeal proceedings. At the hearing in question, however, the judge had not set the date of referral, which was instead established only in the early days of 2019. At the hearing held on 13 June 2019, part of the grounds for appeal were waived and the Council of State ordered the acquisition of the expert’s report submitted by the aforementioned parties (Codacons, Acqua Bene Comune, Federconsumatori) in order to submit it to the parties for oral arguments. Owing to the Covid-19 emergency the new public hearing was set for 10 December 2020 inviting the parties to: 1) file documents by 19 November 2020; 2) file briefs by 24 November 2020; 3) file replies by 28 November 2020. The hearing at the Council of State was brought forward to 22 October 2020 inviting the parties to: 1) file documents by 1 October 2020; 2) file briefs by 6 October 2020; 3) file replies by 10 October 2020. A partially favourable judgement, no. 8079/2020 16 December 2020:

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

As of the date of this report, in addition to the appeal to the Council of State mentioned above, the other appeals filed by Acea Ato 2 before the Lombardy Regional Administrative Court against Resolution no. 643/2013/R/idr (MTI), Resolution no. 664/2015/R/idr (MTI-2) and Resolution no. 580/2019/R/idr are still pending.

With regard to Resolution 643/2013, it should be noted that on 8 May 2014 additional grounds were presented for the cancellation of ARERA decisions no. 2 and no. 3. On 9 December 2014 additional grounds were presented for the cancellation of Resolution 463/2014/R/idr. Pending the scheduling of the hearing, in April 2019 the notice of the hearing was received (the administrative

process was cancelled due to the inactivity of the party). Following this communication, on 20 June 2019 Acea Ato 2 presented the request for the scheduling of the hearing together with the new power of attorney signed by the Chairperson. As of today we are waiting for the hearing on the merits to be scheduled.

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

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

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

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

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

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

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

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

ELECTRICAL REGULATION

2020 Budget Law

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

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

Biennial limitation

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

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

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

Covid-19 health emergency

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Social bonus

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

Economic offsetting of arrears owing to fraudulent withdrawals

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

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

Among the primary developments, with regard to sales:

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

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

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

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

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

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

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

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

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

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

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

As envisaged by the same law, with Resolution **59/2019/R/com** the Authority prepared Guidelines (LGA) with voluntary participation for the promotion of commercial offers of electricity and gas benefiting purchasing groups and the creation of IT platforms that can facilitate the aggregation of small consumers. Purchasing Groups will then be able to search the market for commercial offers, acting as a bridge between sellers and end customers. These guidelines, effective from 1 May 2019, establish rules of conduct that purchasing groups are required to observe for a period of at least two years after voluntarily adhering to them.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transitional service for non-domestic customers

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

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

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

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

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

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

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

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

Modification of the process for termination of dispatching and transport contracts

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

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

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

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

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

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

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

Launch of a proceeding for amendment of the Bill 2.0 rules

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

Network code

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

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

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

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

forcing the guarantee, terminates the transport contract.

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

Approval of the settlement scheme of the Register of Sellers

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

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

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

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

Remuneration of electricity marketing and sale activity (RCV_{sm})

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

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

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

ARERA unbundling checks

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

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

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

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

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

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

Sanctioning procedure for charging the postal costs for the paper bill

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

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

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

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

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

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

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

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

Pursuant to Resolution **58/2019/E/eel**, the Authority initiated a fact-finding investigation against Acea Energia with the aim of acquiring information and useful data concerning the management of the financial items relating to electricity destined for the Vatican State. The Company responded to the request for information. In accordance with this Resolution and pending the conclusion of the aforementioned investigation, the Authority has specified to the Italian Energy and Environmental Services Fund that it should proceed on a transitional basis and subject to adjustment with the equalisation of the costs incurred by Acea Energia for 2017 for the purchase and dispatching of electricity intended for protected customers.

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

Stato per i Servizi Pubblici della Repubblica di San Marino for the annulment of Resolution 670/2018/R/eel (which updated the transmission tariffs for the year 2019) and Resolution 58/2019/R/eel. Pending the conclusion of the investigation, the Authority asked the Cassa per i servizi energetici e ambiente – on a temporary basis and subject to adjustment – to suspend any disbursements relating to the equalisation of the costs incurred by Acea Energia for 2018 for the purchase and dispatching of electricity intended for standard market customers.

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

Capacity market

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

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

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

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

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

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

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

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

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

Network losses

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

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

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

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

Continuity of the service

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

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

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

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

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

Resilience Plan

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

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

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

Energy efficiency certificates and tariff contribution awarded to distributors

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

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

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

Tariff regulation

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

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

Standard network code of the electricity transport service

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

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

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

Electric mobility

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

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

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

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

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

ENVIRONMENTAL REGULATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sustainable development

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

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

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

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

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

Environmental and energy impacts

The natural environment is the scenario where the activities of the Group are performed and is to be preserved with a responsible and efficient use of resources, protecting sources, safeguarding the natural areas where the plants and service networks encroach, mitigating the physical and the external impacts generated in the ecological context of the operating processes.

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

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

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

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

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

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

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

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

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

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

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

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

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

Development and technological innovation

In Acea, the Innovation, Technology & Solutions Function reports directly to the CEO and has the task of ensuring a model of innovation for the Group through the adoption of processes and approaches typical of open innovation, with the involvement of internal and external stakeholders as defined by the Industrial Plan. In this direction, activities were developed in the electrical area, with further progress on the automation and efficiency of processes and on applications in the field of smart metering and smart grids with a

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

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

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

Development of human capital

In Acea people are the most important resource. For this reason, they are constantly provided with the tools and skills necessary to respond effectively to the challenges of the business during the main stages of corporate life: selection, welcoming, training, rewarding and development.

Entrepreneurship, teamwork and action are the three driving values of our Leadership Model upon which the Group's initiatives are built to achieve the goals of the 2019-2022 strategic plan and the sustainability plan.

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

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

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

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

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

Sustainable management of the supply chain

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

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

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

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

Health and safety in the workplace

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

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

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

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

TREND OF OPERATING SEGMENTS

ECONOMIC RESULTS BY SEGMENT

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

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

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

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

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

OPERATING SEGMENTS

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



ENVIRONMENT OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

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

Equity and financial results

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

EBITDA

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

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

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

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

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

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

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

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

Terni (UL1): during the year, the contractual planning for the delivery of pulper waste guaranteed the fuel requirements for the entire period. It should be noted that on 19 February 2020 the region decreed a non-substantial modification measure of the IEA adopted by Decree no. 1314 of 17 February 2020 concerning the increase of the volumes authorised to discharge into public sewerage after appropriate treatment of industrial wastewater and run-off wastewater.

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

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

Based on the results of the sampling and analysis carried out by both Acea Ambiente and ARPA Lazio, and based also on what was reiterated by the Ministry of the Environment, the procedures are currently being verified. In parallel, sampling and analysis will be carried out on the remaining area of Castellaccio, already defined in the Ministry of the Environment's decree.

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

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

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

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

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

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

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

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

Revenues from electricity were negatively impacted by lower market tariffs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In order to comply with the requirements of the state concession, it will be necessary to carry out certain projects that will make it necessary to temporarily interrupt waste management in order to avoid interfering with the work. A suspension of deliveries was implemented starting 31 October 2019. Operationally, with the temporary suspension of the deliveries, the last composting cycles ended in June 2020.

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

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

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

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

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

tivities were completed with the grid operator, the first parallel with the electricity grid was carried out. The plant thus formally commenced operations on that date.

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

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

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

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

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

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

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

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

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

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

Aquaser: mainly operates, as a joint venture, as a waste intermediary with its Customers/Shareholders belonging to the Acea Group. During the period of reference, the company consolidated its market position by strengthening its transport activities through the acquisition of vehicles and personnel that now allow the management, at least partially, of the corresponding services. Aquaser currently wholly or partially performs the service of loading, transport and recovery/disposal of waste from water purification for the companies of the Acea Group. It also manages individual orders related to the service of loading, transportation and recovery/disposal of waste or soil improvers for the company Acea Ambiente, as well as other ancillary activities on behalf of third-party customers (mainly transport services). The recovery activities are carried out through energy recovery, conditioning or composting plants of third parties, and in part at the plants of the Parent Company, while disposal activities are almost all carried out at treatment plants/landfills of third parties.

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

Acque Industriali: through the management of specific platforms, provides intermediation and liquid waste treatment services to private companies operating both regionally and nationally, as well as activities collateral to those of the integrated water cycle consisting mainly in the recovery and disposal of biological sludge. The Company carries designs and builds plants mainly related to the treatment of wastewater and sludge and waste in general, as well as the treatment of atmospheric emissions, following up with their subsequent ordinary and extraordinary management, as well as carrying out design, direction and execution of works in the field of environmental clean-up of polluted sites, mainly in the industrial sector. It also performs research and development in the sectors of reference in partnership with research bodies at both a regional and national level.

Demap: carries out its activity in the field of sorting plastic packaging from urban waste collection. It is one of the 33 or so Forced Waste Selection Centres (CSS) that have an agreement with the Corepla Consortium, established by law pursuant to Italian Legislative Decree 22/97 and now regulated by Italian Legislative Decree 152/06, responsible for achieving the recycling and recovery targets for plastic packaging of consumed products.

Separated collection of plastic packaging is regulated at a national level by a framework agreement between Anci and Conai and by the technical annexes concluded between Anci and the individual value chain consortia which, in the case of plastic packaging, provide that collection may be transferred to the sorting centre either selectively (mono-material collection) or jointly (multi-material collection). Demap carries out its business in compliance with current regulations and is authorised under Italian Legislative Decree 152/06 with procedure issued by the Province of Turin no. 133-25027/2010 of 23 June 2010.

Separated collection of plastic packaging in Italy recorded approximately a 4% increase in 2020 compared to volumes for the previous year, with approximately 1,435,000 tonnes collected.

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

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

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

Ferrocarr, Cavallari and Multigreen: April saw the completed acquisition of 60% of the capital of the companies Ferrocarr S.r.l. and Cavallari S.r.l. (which holds 100% of Multigreen S.r.l.), engaged in the storage, treatment and sorting of waste. These companies, which own four plants with a total authorised capacity of over 145 thousand tonnes per year, operate in the provinces of Terni and Ancona, carrying out sorting and recovery of paper, iron, timber, plastics and metals. They are also active in the management of the separated collection of production and packaging waste as well as in the disposal of waste, mainly on behalf of Corepla ("National Consortium for the Collection, Recycling and Recovery of Plastic Packaging").

The economic value of the transaction, in terms of enterprise value for 100% of the companies, is € 25 million.

Finally, it is noted that on 11 December 2020 the notary signed the deed of merger by acquisition of the company Multigreen S.r.l. by the company Cavallari S.r.l., with validity for civil and tax purposes from 1 January 2021.

COMMERCIAL AND TRADING

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

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

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

EBITDA	31/12/2020	31/12/2019	Change	Change %
€ million				
EBITDA – Commercial and Trading Segment	72.4	69.1	3.3	4.8%
EBITDA – Group	1,155.5	1,042.3	113.2	10.9%
Percentage weight	6.3%	6.6%	(0.4 p.p.)	

The Segment, responsible for the management and development of electricity and gas sales and related customer relationship activities as well as the Group's energy management policies, closed 2020 with an EBITDA of € 72.4 million, an increase of € 3.3 million compared to 2019. The increase is primarily attributable to **Acea Energia** (+ € 3.5 million), as a result of an increase in the energy margin (+ € 6.3 million) offset by greater labour costs attributable largely to the effects of the **Acea8cento** valid from 1 August 2020, which required direct employment of a portion of its personnel. It is also noted that there were lower revenues from margins for connection fees due to slowing of activities requested by customers in the lockdown period, and lower revenues relative to the 2019 payment by CSEA of customer-exit compensation.

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

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

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

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

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

projects and € 4.0 million for implementation of the new Customer Relationship Management system.
Net debt at 31 December 2020 was positive, standing at € 95.7 million, an improvement of € 42.5 million, mainly due to **Acea Energia** (+ € 44.7 million) and primarily attributable to the dynamics of operating cash flow influenced by greater inflows from trading activity partially offset by lower receipts during the Covid-19 emergency and lower regulatory inputs.

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

Energy Management

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

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

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

Transfer of Water Customer Care Branch

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

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

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

Electricity distribution

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

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

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

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

Proceeding PS9815 of the AGCM for unsolicited activations: on 15 May 2019 the EU Court of Justice ruled on the preliminary ruling of the Lazio Regional Administrative Court, stating that: 1) there is no conflict between the directives on unfair commercial practices and on remote contracts (29/2005 and 83/2011) and the sectoral directives (72/2009 and 73/2009); 2) in the energy sector it is also possible to apply the general discipline for the protection of consumers (with consequent competence of the AGCM, pursuant to art. 27, paragraph 1-bis, of the Consumer Code). In accordance with Directives 2009/72 and 2009/73, it follows that ARERA is not competent to sanction such conduct. On 28 February 2020 Acea Energia received a communication that the Lazio Regional Administrative Court set a public hearing for 20 July 2020 for the annulment of the fine. On 24 September 2020 the sentence was received with which the Lazio Regional Administrative Court rejected the appeal submitted in 2016 by Acea Energia with regard to the AGCM order on the HHV regarding unsolicited activations of electricity and gas supplies.

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

Proceeding A513 of the AGCM for abuse of dominant position:

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

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

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

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

Proceeding PS10958 of the Antitrust Authority (AGCM):

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

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

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

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

Fact-finding investigation concerning the financial items relating to electricity destined for the States within the Italian State: pursuant to Resolution 58/2019/E/eel, on 20 March 2019 the Authority initiated a fact-finding investigation against Acea Energia with the aim of acquiring information and useful data concerning the management of the financial items relating to electricity destined for Vatican City State.

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

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

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

With Resolution no. 491/2019/E/eel the Authority closed the preliminary investigation by instructing Acea Energia and areti on the actions to be taken by the end of 2019. Acea Energia informed the Authority that it had complied with the requirements. Resolution 491/2019/E/eel, moreover, gave a mandate 1) to Terna, the relevant distribution companies and CSEA to recalculate the charges for withdrawals by Vatican City State by applying the criteria highlighted in the preliminary findings attached to the same Resolution 2) to the Director of the Sanctions and Commitments Department of the Authority for the documents resulting from the evidence found. As a result of this, with Determination 5/2020/eel, the Authority initiated two sanction proceedings against Acea Energia and areti. On 12 June 2020, Acea Energia sent ARERA its proposal of commitments, including waiver of the amount receivable accrued in relation to the system, payment of compensation to ARERA and the obligation to send two-monthly reporting for a period of ten years. Acea Energia is awaiting approval of these commitments from ARERA and completion of the recalculation activity by Terna and CSEA.

OVERSEAS

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

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

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

EBITDA	31/12/2020	31/12/2019	Change	Change %
€ million				
EBITDA – Overseas Segment	25.3	16.9	8.4	49.6%
EBITDA – Group	1,155.5	1,042.3	113.2	10.9%
Percentage weight	2.2%	1.6%	0.6 p.p.	

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

- Aguas de San Pedro (Honduras) 60.65% owned by the Group as of October 2016, when it was consolidated using the line-by-line method. The Company serves its customers in San Pedro Sula;
- Acea Dominicana (Dominican Republic) wholly owned by the Group, provides the service to the local Municipality known as CAASD (Corporation Aqueducto Alcantariado Santo Domingo);
- AguaAzul Bogotá (Colombia) of which the Group holds 51% is consolidated on the basis of the equity method with effect from the 2016 Financial Statements as a result of a change in the composition of the Board of Directors;
- Consorcio AguaAzul (Peru) is controlled by the Group which owns 44% and provides the water and discharge service in the city of Lima. Control of the company was taken by virtue of the amendment of the Shareholders' agreements and the purchase on 13 January 2020 of additional shares in the company from the outgoing Shareholder Impregilo International Infrastructures N.V., which increased the Group's shareholding from 25.5% to 44.0% (+18.5%);
- Acea Perú is wholly owned by Acea International and was established on 28 June 2018. This company was established with the specific intent to manage the aqueduct service in the city of Lima;
- Consorcio Servicio Sur controlled by Acea International (50%), Acea Ato 2 (1%) and by local partners Conhydra, Valio and India overall equal to 49%. The Consorcio was established on 5 July 2018 with the specific aim of managing the corrective maintenance service for the drinking water and sewerage systems of the Directorate of Services Sur of Lima (Peru);
- Consorcio Acea controlled by Acea Perú (99%) and Acea

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

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

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

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

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

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

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

WATER

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

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

Equity and financial results

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

EBITDA

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

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

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

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

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

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

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

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

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

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

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

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

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

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

Lazio – Campania area

Acea Ato 2

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

Municipalities that declared they do not wish to be part of the Integrated Water Service*	7
Municipalities with Protected Entity	1
Municipalities fully acquired into the Integrated Water Service	79
Municipalities partially acquired, for which Acea Ato 2 provides one or more services:	18
Municipalities to be acquired	7

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

The Company provides the full range of **drinking water distribution services** (collection, abstraction, retail and wholesale distribution). Water is drawn from springs on the basis of long-term concessions. Water sources supply drinking water to approximately 3,900,000 residents in Rome and Fiumicino and in more than 61 Municipalities in the Lazio region, via five aqueducts and a system of pressurised pipes. Three further sources of supply provide non-drinking water used in the sprinkler system of Rome.

As at 31 December 2020, Acea Ato 2 manages a total of approximately 6,852 kilometres of sewerage network, 645 sewerage pumping stations – of which 194 in the Roma Capitale area – and a total of 159 waste treatment plants – 32 of which in the Roma Capitale area – for a total quantity of treated water equal to 581 Mmc (data referring to managed treatment plants only).

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

As of 31 December 2020, the six main treatment plants had treated a volume of water equal to about 510 Mmc with a slight drop caused by the absence of rainfall, compared to what was treated in 2019 (514 Mmc).

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

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

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

Acea Ato 5

Acea Ato 5 provides Integrated Water Services on the basis of a

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

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

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

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

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

With regard to 2019, the digitisation of the networks of the managed area continued, with the inclusion of data in the GIS – Geographic Information System. According to the 2019-2022 plan for significant activities, as of 31.12.2019 5,496 km of the water supply network had been digitised (1,205 km of supply network and 4,291 km of distribution network).

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

Since Acea Ato 5 has so far failed to initiate compliance proceedings with a view to verifying the voluntary compliance of the Municipality, which is suitable for preventing the possible appointment of an acting commissioner as has already happened in similar cases, a series of meetings have taken place at the Operational Technical Secretariat of OTAA 5 Lazio Meridionale – Frosinone aimed at seeking an amicable settlement of the dispute and at initiating the preparatory activities for the transfer to Acea Ato 5 of the management of the IWS in the Municipality of Paliano. In this perspec-

tive, the parties – with minutes of 26 November 2018 and 29 November 2018 – performed the update of the previous survey of networks and existing plants in the Municipality of Paliano, necessary for the management of the IWS.

To date, the parties are sharing the IWS handover report, which should also result in the waiver of pending litigation between them. With regard to the Municipality of Atina, whose management of the IWS has been transferred to Acea Ato 5 as of 19 April 2018, it should be noted that Municipal Council Resolution no. 14 of 17 April 2019, by which the Municipality resolved to “establish the sub/optimal territorial area called Atina Territorial Area 1, with reference to optimal territorial area no. 5, for the continuity of the autonomous and direct management of the water service pursuant to art. 147, paragraph 2-bis of Italian Legislative Decree no. 152/2006, declaring the Integrated Water Service a ‘local public service without economic importance’”.

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

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

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

Lazio Regional Administrative Court appeal on termination of the Management Agreement

Resolution no. 7 of the Conference of Mayors of 13 December 2016 resolved to terminate the Management Agreement. On 26 and 27 June 2018, appeal documents were served, proposed by the Area Authority and the Municipality of Ceccano and other Municipalities by the OTAA5, against sentence no. 638/2017 of the Lazio Regional Administrative Court – detached section of Latina, by which the Administrative Judge upheld the appeal filed by the Company against Resolution no. 7 of 13 December 2016, by which the Conference of Mayors resolved to terminate the contractual relationship with Acea Ato 5, annulling the measure. Such appeals do not present any arguments of particular novelty or relevance with respect to what has already been submitted for the examination of the Court of First Instance, nor have the appellants proposed an application for interim relief. In any case, the Company filed the formal documents for both disputes, for which as of today there is no information regarding the scheduling of the hearing.

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

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

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

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

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

Following the hearing on 17 July 2012, the Judge – in an Order filed

on 24 July – suspended the temporary enforcement of the injunction order, and postponed to a later date the discussion of the merits of the issue.

The judge also rejected the request for an order of payment of the concession fees submitted by the OTAA. During the hearing on 21 November 2014, the judge withdrew the reservations on the motions for admission of evidence filed by the parties and fixed the hearing for the final statements on 15 November 2016. During the hearing, the judge granted the terms for the conclusions and replies and deferred the decision on the case. In sentence 304/2017, published on 28 February 2017, the civil judge revoked the injunction decree issued in 2012, rejected the subordinate re-conventional request by Acea Ato 5 and ordered the deferral of the case in the preliminary proceedings concerning the re-conventional request by the OTAA as regards the payment of the concession fees. At the hearing of 17 November 2017, the Judge, having acknowledged the counterparty request, postponed the hearing to 27 February 2018.

At the outcome of the aforementioned hearing, the new Judge who took charge of the case, having noted the discrepancies that emerged in the respective accounts of Acea Ato 5 and OTAA 5, granted a postponement to 4 May 2018.

At this meeting, in light of the Conciliation Panel established on 11 September 2018 with OTAA 5 – pursuant to art. 36 of the Management Agreement to which the question concerning the determination of concession fees was also referred, among others – the parties asked the judge for a postponement, the hearing being scheduled for 15 February 2019, then postponed to 17 September 2019. At this hearing there was a postponement until 20 December 2019. The proceedings were first postponed to 17 March 2020, then automatically postponed to 11 September 2020 and then to 15 December 2020. The case was further postponed to 12 February 2021, and the results are still awaited.

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

The first hearing was automatically postponed to 11 May 2018. On this occasion the Court, having heard the respective positions of the parties, postponed the case to 20 November 2020 for the oral discussion and the ruling of the sentence pursuant to art. 281-sexies of the code of civil procedure. The proceedings were postponed to 30 June 2021.

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

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

The validity of the appeal and the decision not to cancel the receivable were further confirmed by the conclusions of the Conciliation Board, established by the Area Authority and the Operator, in accordance with the provisions of article 36 of the Management

Agreement, in order to reach a settlement of the various disputes pending between the parties.

In its Conciliation Proposal sent to the parties on 26 November 2019 and currently being examined by the OTAA 5 Conference of Mayors, the Conciliation Board has in fact, among other things:

- ascertained the existence of significant differences between the concession fees approved in the various tariff provisions and the amounts to be paid to the Municipalities. In the opinion of the Board, the actual existence of such differences leads one to believe that Resolution no. 4/2007 of the Area Authority was based on credible elements, also found afterwards, where it identified the “savings on the concession fees to be paid to the Municipalities” (which could constitute the financial funding to pay a loan stipulated by the Area Authority) as the financial coverage for the payment to the Operator of the sums envisaged in the settlement. This conclusion, highlighting the plausibility of the sources of coverage identified by the Area Authority to finance the settlement, confirms the validity of the appeal filed by the Company against sentence no. 304/2017, by which the Court of Frosinone declared the nullity of Resolution no. 4/2007 of the Area Authority and of the settlement agreement precisely because of the alleged failure to identify the related financial coverage in violation of the disclosure regulations, since the reference to “unspecified savings on the concession fees to be paid to Municipalities” was not considered adequate and sufficient;
- considered that there are valid and grounded reasons to grant the Operator’s request for recognition of higher operating costs incurred in the three-year period 2003-2005 to the reduced extent agreed to by the parties in the settlement, thus confirming the existence of the corresponding receivable in the Company’s Financial Statements.

Updating of the concession fee

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

For the reasons set out below, the Company did not consider that the obligation to pay this difference to the Area Authority had failed, and therefore it did not reduce the provisions in its Financial Statements for concession fees:

- the aforementioned Resolution of the Conference of Mayors has made no provision for the difference;
- in compliance with the regulations in force, the quantification of the concession fees is the exclusive responsibility of the Area Authority and therefore any recognition of the difference (with consequent extinction of the relative obligation) can only take place following the revision of the tariffs for the years

2013-2017 and the relative Economic and Financial Plan (EFP) by the Area Authority;

- when reviewing the tariffs for the two-year period 2018-2019 and the related EFP, the Area Authority implemented the reduction in concession fees only as from 2018 (with a substantial reduction of about € 1,658 thousand in 2018), leaving those for the 2013-2017 years unchanged;
- for the 2013 financial year, the AGB had issued invoices to the Company for the difference between the concession fee resulting from the relevant tariff and the charges for the loans that the Operator had paid to the municipalities based on the aforementioned Resolution;
- the exact quantification of the concession fees for the aforementioned years and the assessment of their reallocation and treatment for tariff purposes was an open issue for both parties, so much so that it was referred to the Conciliation Board established between OTAA 5 and the Operator, in accordance with the provisions of art. 36 of the Agreement;
- it should also be noted that since it is a so-called “pass-through cost” in the tariff definition, i.e. charged as a tariff without any economic return for the Operator (a sort of collection on behalf of third parties), its effect is substantially neutral in the Operator’s Financial Statements: it is recorded as revenue and at the same time and in equal measure as a cost. For this reason, even if the Company mistakenly did not fulfil its obligation to pay the difference and recognised out-of-period income as an adjustment to the amount due for the concession fee, it would have had to recognise out-of-period income of the same amount following a reduction in the adjustments for the years 2013-2017, with clear economic effects that are insignificant from both a statutory and fiscal point of view.

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

Conciliation Board with OTAA 5

With regard to **relations with OTAA 5**, the Company has tried to reach a settlement of the various disputes pending against the Area Authority, convinced of the need to put an end to a very long season of clear conflict between the Granting Body and the Licensee Company, culminating with the Resolution passed by the Conference of Mayors of OTAA 5 aimed at the termination of the Management Agreement that forced the Company to appeal to the Latina Regional Administrative Court that annulled the above Resolution. In this context, in recent years and especially during 2018 an enormous effort has been made – including organisational efforts – to reconstruct the relations between the Company, the Area Authority and the individual Municipal Administrations of OTAA 5. Similarly, the possibility of establishing a Conciliation Board with the Area Authority has therefore become concrete, with the aim of settling the main issues still in dispute by the parties.

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

- judgement pending with the Court of Frosinone, docket

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

- quantification of the concession fee relative to the period 2012-2017, and the linked destination of any economies for a total of 12,798,930.00 – the Board proposes, also taking into account the regulatory guidelines provided by ARERA, that these are taken out of the tariff adjustments in favour of the Operator;
- recognition of the receivable due to the Operator (€ 10,700,000.00) and related to the 2007 transaction, which is the subject of judgement no. 304/2017 of the Court of Frosinone, appealed by Acea Ato 5 to the Rome Court of Appeal (docket no. 6227/2017). The first hearing of the appeal proceedings is scheduled for 20 November 2020, and Acea Ato 5 – even though it considered the above sentence to be incorrect and therefore appealed it – nevertheless pointed out that Acea Ato 5 did not in any way deny the existence of the receivable claimed by the Manager and therefore claims the right to recover the receivable itself, also fearing further initiatives to protect the interests of the Company. The Operational Technical Secretariat has expressed its willingness to ask the Conciliation Board to study the Manager's claim, even from a legal point of view. The Board proposed recognition of this receivable, but the case would not have any impact on the Financial Statements, given that the item in question is already recognised;
- compensation of damages suffered by Acea Ato 5 against delayed delivery of services by the Municipalities of Cassino, Atina and Paliano – the Board holds the Operator's claim to be founded but, in consideration of the difficulty in quantifying the damage suffered and with an eye to amicable settlement, proposes that the Operator renounces this claim with regards to the Area Authority;
- compensation of damages for the lack of handover of the ASI and Cosilam plants, assessed in the amount of € 2,855,000.00 – the Board holds that the requirements to dispute a deed which is now final are not met; nonetheless, the Operator will renounce the claim against recognition of the credit for € 10,700,000.00;
- recognition of interest on the delayed payment of concession fees on the part of Acea Ato 5, assessed in the amount of € 650,000.00 – the Board proposes recognition of this claim;
- request for an Operator repayment plan relative to the Area Authority for debt positions relating to the concession fee for 2013/2018 which, as at 30 June 2019, amount to around 10,167,000.00. The Board proposed that this item, already recognised in the Financial Statements, be offset by the recognition of a credit of € 10,700,000.00;
- discounting of the Adjustments 2006/2011, and for 2014, 2015, 2016 and 2017, assessed in the amount of € 1,040,000.00 – the Board proposes recognition of this credit in favour of the Operator;
- non-invoicing of adjustments 2006/2011, due to the adjustment of 2012 volumes, assessed in the amount of € 1,155,000 – the Board proposes recognition of this claim in favour of the Operator.

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

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

- it shall be called upon to verify the possibility of an attempt at an amicable settlement between the parties with respect to all and/or even some of the above matters;
- after an extensive investigation that must concern all the indi-

vidual points under examination, the Conciliation Board must present the parties with a proposal for conciliation;

- the parties will be free to accept or reject the conciliation proposal presented by the Conciliation Board, i.e. to accept it in full or even only in part, without any obligation to give their reasons;
- therefore, the appointed Board will have the task of carrying out an investigation on behalf of both parties with respect to the matters entrusted to it, without prejudice to subsequent decisions that will be left to the individual parties;
- the conciliation proposal presented by the Board and, more generally, the report and/or deeds drawn up by the Board may not be used in judicial proceedings by one Party against the other as a possible recognition of its own reasons and/or those of others;
- the appointed Board does not act as an Arbitration Board.

The parties also shared the criteria for the appointment of the Board and, in particular, each Party appointed its own member. The Chairperson of the Conciliation Board was selected by the Prefect of Frosinone, at the joint request of the parties, and was jointly appointed on 16 May 2019. The Board officially took office on 27 May 2019, thus starting the 120-day period within which it had to arrive at a proposal for an amicable settlement of the issues submitted for its assessment.

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

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

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

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

With a note ref. no. 53150 On 04 February 2020, Acea Ato 5 informed the OTS of OTAA 5 that on 19 December 2019 the BoD approved the Conciliation Proposal formulated by the Conciliation Board and the draft of the Conciliation Deed between OTAA 5 and Acea Ato 5 and that, moreover, the Chairperson was given a mandate to sign the Conciliation Deed, confirming in particular the commitment to carry out interventions for a total amount of € 4,500 thousand without any tariff recognition, in conciliation and for the reasons set out above. To date, the Conference of Mayors has not yet been scheduled for final approval of the two documents. However, in light of the conduct throughout the conciliation process, and in particular during the final meeting held on 11 November 2019 in which the Conciliation Board explained the Conciliation Proposal to the legal representatives of the parties and as the Company's BoD had already approved the related Conciliation Deed on 19 December 2019 and then communicated this decision to OTAA 5 on 4 February 2020, the Company believed that as at 31 December 2019 an implicit obligation had already arisen for the commitments envisaged in the Conciliation Deed, and in particular for the aforementioned commitment to carry out interventions in the territory without any tariff recognition, having already created a valid expectation in the OTAA 5 Area Authority and in the municipalities of the territory that the Company intends to honour these commitments and bear the related charges. Based

on the information available as at 31 December 2019, considering the approval of the Conciliation Deed by the Conference of Mayors to be probable and consequently also considering the related implied obligation to be likely, at the end of 2019 the Company decided to recognise a provision of this amount. In July and August 2020, the Area Authority convened the Area Council representatives, to illustrate the work done by the reconciliation Group, so as to begin activities preparatory for the presentation of the same to the Conference of Mayors. At present no additional meetings have been organised and the aspect relative to Acea Ato 5's willingness to make investments of € 4.5 million over 5 years fully under the responsibility of the Operator itself is still being evaluated.

Criminal proceeding no. 3910/18

With regard to criminal proceeding no. 3910/18 r.g.n.r. of the Public Prosecutor in the Court of Frosinone, on 2 January 2019 a preventive seizure decree was issued on 18 December 2018 by the Judge for Preliminary Investigations at the Court of Frosinone as part of criminal proceedings no. 3910/18 r.g.n.r., pending for the alleged violation of art. 4 of Italian Legislative Decree 74/2000 (inaccurate declaration). Pursuant to the aforementioned provision, the preventive seizure of financial resources in the accounts held in the name of Acea Ato 5 up to a value of € 3,600,554.51 was ordered. On 11 January 2019, a request for a review was filed, whose discussion hearing was scheduled for 1 February 2019 before the Court of Frosinone, as a unified bench. At the outcome of the aforementioned hearing in the Council Chamber, the Court of Frosinone upheld the proposed re-examination request and, as a result, cancelled the preventive seizure decree, ordering the restitution to the person entitled thereto. Based on the aforementioned restitution order, the Company sent a formal request to the Single Justice Fund for the restitution of the sums released. As of today the process of returning the released funds has been completed. This case was combined with criminal proceeding no. 2031/16 r.g.n.r.

ARERA sanctioning measure concerning IWS tariff regulation

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

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

On 3 October 2019 the Company filed an appeal with the Lombardy Regional Administrative Court against the aforesaid measure to have it thrown out, and to have the amount of the fine reviewed. Moreover, following the submission of the appeal, the Company sent a specific request to the Authority asking for details of the timing of the approval procedures for the 2016-2019 tariffs, as well as the 2018-2019 update.

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

AGCM sanctioning measure – Proceeding PS9918

On 5 July 2018, in implementation of the Resolution adopted by the Italian Antitrust Authority on 27 June 2018, an audit took place at the registered office of the Company following the initiation of the proceeding pursuant to art. 27, paragraph 3 of Italian Legislative Decree no. 206 of 2005, as well as pursuant to art. 6 of the

“Regulation on preliminary investigations concerning misleading and comparative advertising, unfair commercial practices, violations of consumer rights in contracts and unfair terms” (hereinafter Regulation). The proceedings were opened in response to reports made to the Authority by the Consumer Associations CO.DI.CI. and Federconsumatori Frosinone regarding alleged incorrect and aggressive behaviour towards consumers and small businesses by Acea Ato 5 SpA in the period January 2015-June 2018.

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

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

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

On 4 July 2019, the Authority notified the Company of the sanctioning measure with a pecuniary administrative sanction totalling € 1.0 million was imposed. The Company made a specific addition to the Financial Statements. On 3 October 2019 the Company filed an appeal with the Lazio Regional Administrative Court – registered under docket no. RG 12290/2019 section I – against the aforesaid sanctioning measure, requesting its cancellation with precautionary suspension. In the Chamber of Council of 6 November 2019 to discuss the request for precautionary suspension, the Regional Administrative Court of Lazio issued Order no. 7223 with which it rejected the application for precautionary suspension. The decision of the Regional Administrative Court does not address the individual grounds of the appeal, which will only be ruled on at the hearing, yet to be scheduled. In particular, according to the administrative judge *“with regard to the extent of the financial penalty imposed and the feared consequences on the business activity, it does not appear to be extremely serious and urgent as per art. 119, paragraph 4 of the Italian Criminal Code for the granting of the requested precautionary protection, also taking into account the fact that the claimant company is in any case entitled to file a request for payment in instalments”*.

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

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

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

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

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

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

In particular, the evidence submitted confirmed that:

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

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

Criminal proceeding no. 2031/2016

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

Notice of IRAP assessment and tax audits

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

It is the intention of the Company to challenge the aforementioned judgement and to lodge an appeal before the Regional Tax Commission.

The deadline for this action is six months from the date of filing of the judgement, therefore 23 April 2020. This deadline was extended to 11 May 2020 due to the health emergency. The appeal has been presented and at present we are waiting for the hearing to be scheduled.

During 2019, the Guardia di Finanza also continued its audit of income taxes for the years 2014 to 2018.

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

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

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

With this report on findings (PVC), the second and third points are resolved, given that the critical points noted in the report and initially ascribed to the tax year 2013 had an impact on subsequent years:

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

The Company appealed these fines with the Provincial Tax Commission of Frosinone on 28 February 2020 in compliance with the deadline of 60 days from the date of notification of the aforementioned notices of assessment, jointly and severally with the Parent Company Acea, with regard to the assessments of the IRES tax for 2013. The meeting for discussion originally set for 18 November 2020 was postponed to 19 January 2021. Supported by the opinion of its tax advisors, the Company believes that there is a risk of losing the case in the “remote” tax proceedings.

With regard to the remaining findings relating to the 2015-2018 financial years, contested with the PVC of 30 October 2019 and against which no notice of assessment has been served to date, the Company, supported by its tax advisors, has made the necessary assessments regarding the related risk and has set aside a provision for tax risks.

AGCM feedback on purification and charge of sewerage and purification fees

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

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

Specifically, the Authority asked to know:

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

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

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

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

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

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

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

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

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

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

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

Regulatory period 2016-2019

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

At present, definitive approval by ARERA is awaited.

Two-year update 2018-2019

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

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

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

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

At present, approval by ARERA is awaited.

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

Additionally, during October 2019, the Company sent a specific

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

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

- *the Authority will complete the investigations intended to ascertain the consistency of the relevant technical and tariff data, in the context of the verifications on the specific regulatory structures proposed for the third regulatory period (2020-2023), in observance of the MTI-3 water tariff method, pursuant to Resolution 580/2019/R/ldr;*
- *for the two-year period 2018-2019 the tariff determinations adopted by the competent entities remain valid, which will be assessed by the Authority as part of the quantification of the adjustment components referred to in article 27 of MTI-3 when approving the new regulatory framework”.*

Regulatory period 2020-2023

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

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

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

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

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

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

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

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

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

Gori

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

A total of 5,141 km of water network is currently managed, consisting of 869 km of primary abstraction network and 4,272 km of distribution network, and a 2,625 km drainage system.

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

The Company provides Integrated Water Service on the basis of a thirty-year agreement signed on 30 September 2002 by the Company and the Sarnese-Vesuvianoo Area Authority.

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

Following the definition and normalisation of relations between the Company and the Campania Region (as well as its concessionaire for collections Acqua CampaniaSpA), which took place at the end of the 2018 financial year, with regard to the transfer of the so-called “Regional Works” (i.e., some infrastructure of the IWS falling within the territory of OTA 3 and still managed by the Region, hereinafter referred to as “Regional Works”) to the Area Governing Body and, through it, to Gori, and the regional supplies of “wholesale water” and “wastewater collection and purification services” for the period from 1 January 2013 to the second quarter of 2018, the Region, the EIC and the Company reached an overall agreement aimed at the complete implementation of the Integrated Water Service in the Sarnese-Vesuviano District Area within a framework of economic-financial equilibrium of the management for its entire residual duration and the pursuit of the following related objectives: 1) Gori's assumption of the service's management and, by way of concession and in accordance with the provisions of the current Management Agreement of the OTA 3 IWS, the assumption of the Regional Works and the consequent works to improve their efficiency, including the redeployment and efficient employment of the relevant personnel engaged in the IWS; 2) approval by the Campania Region of plans for the payment in instalments of the debt accrued by the Company for the wholesale supplies provided from 2013 onwards, and the concurrent Resolution of the complex legal dispute that has arisen with respect to the payment for the regional “wholesale water” supplies and the re-

gional “wastewater collection and purification” services; 3) the creation of conditions to facilitate Gori’s access to the credit market; (iv) the commitment of the parties to the extent of their remit to restore/maintain the economic-financial equilibrium of the OTA 3 IWS if the need should arise. In fact, the overall agreement reached with the Region and the EIC allowed the company to subscribe a long-term loan with a pool of banks on 18 July 2019 with an availability period of 4 years, a ten-year term and a final maturity for repayment on 31 December 2029.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gesesa

The Company operates in OTA 1 Calore Irpino which promotes and develops the initiative for the Management of the Integrated Water Service in Municipalities in the Province of Avellino and Benevento. Currently, the Authority – governed by the Extraordinary Commissioner referred to in DGR no. 813/2012 and merged into the regional EIC at the end of 2018 – has not yet assigned the management of the Integrated Water Service (aqueduct, sewerage and treatment) to a single operator. Gesesa manages the Integrated Water Service in 22 Municipalities in the province of Benevento for a total resident population of about 120,000 inhabitants spread over an area of about 710 square kilometres with a water infrastructure of about 1,541 km, a sewerage network of 553 km and about 300 plants managed. The total number of user accounts amounts to 57,247, for which 2019 consumption has been estimated at about 7.6 million cubic metres of water.

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

The Company began to establish the foundations consistent with the Resolutions of the Board for a new path of growth and development aimed at achieving strategic objectives that provide for company growth. For these reasons, the investments also focused on the improvement and adaptation of the sewerage systems and the restructuring of the treatment plants and the preliminary design of those not yet present in the territory.

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

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

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

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

Tuscany – Umbria Area

Acque

The management agreement, which came into force on 1 January 2002 with a 20-year duration (expiry is now in 2031), was signed on 21 December 2001. In accordance with said agreement, the Operator took over the exclusive Integrated Water Service of OTA 2, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of waste water. The Area includes 57 Municipalities. In return for award of the concession, Acque pays a fee to all the Municipalities, including accumulated liabilities incurred under previous concessions awarded.

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

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

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

Finally, it is noted that on 24 January 2019, with the submission of the required documentation, with the termination of the previous loan and the related hedging contracts and with the stipulation of the new interest rate hedging contracts, the suspensive conditions were met and, therefore, the new loan agreement became effective. The new loan was established with a pool of banks and envisages two lines of credit: 1) Term Line of € 200.0 million disbursed in a single use and with final single maturity of 29 December 2023 and, 2) RCF Line equal to € 25.0 million payable in one or more uses within the period of use and final maturity on 29 December 2023. This line must be used exclusively to meet the financial needs of the Company for its ordinary business.

At the same time the new loan agreements were entered into, 6 new interest rate hedging contracts were entered into. The new contracts envisage the Company's semi-annual payment of a fixed rate to the counterparties starting from 24 January 2019 and in correspondence with a payment by the counterparties to Acque of a variable rate. The amount for tariff revenues entered in the 2020 Financial Statements represent the GRC value recognised to the operator. Included amongst revenues are adjustments for systemic changes recognised in the aforementioned proposal and not booked in previous Financial Statements: their value totals € 0.7 million.

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

Publiacqua

The management agreement, which came into force on 1 January 2002 with a twenty-year duration, was signed on 20 December

2001. In accordance with said agreement, the Operator took over the exclusive Integrated Water Service of OTA 3, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of wastewater. The Area includes 49 Municipalities, of which 6 managed via agreements inherited from the previous operator, Fiorentinagas. In return for awarding the concession, the Operator pays a fee to all the Municipalities, including accumulated liabilities incurred prior to the awarding of the related contracts.

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

On 18 June 2019 the banks were invited to submit a binding offer on the basis of a term sheet. Following the offers received, on 31 July 2019 the Company signed the new loan for € 140.0 million divided among five lending banks. The **Base Line** must be used for the full repayment of the existing Loan stipulated on 30 March 2016 with BNL and Banca Intesa for the payment of the ancillary costs of the new Loan and for the requirements related to the realisation of the investments envisaged in the EFP, while the **Investment Line** will be used to fully cover the requirements for further investments envisaged in the EFP. Among the conditions precedent to the disbursement of the loan, the lending banks have requested ARERA's approval of the new Tariff Plan, including the extension of the concession. On 6 February 2020, ARERA sent a communication on the tariff provisions for the Integrated Water Service for the two-year period 2018-2019 confirming the validity of the tariff determinations adopted (and consequently the approval of Publiacqua's 2018-2024 Economic and Financial Plan), for which the suspensive condition could be exceeded after the end of the year.

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

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

Acquedotto del Fiora

Based on the agreement signed on 28 December 2001, the

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

With regard to the update of the tariffs for the period 2018-2019, on 27 July 2018, based on the actual data collected referring to the years 2016 and 2017 and the Investment Plan, the AIT approved the tariff revision proposal, setting the GRC and the Theta of the years 2018-2019 and also redesigning the entire tariff profile until the end of the IWS concession (Deliberation of the Executive Council of the AIT no.17/2018 of 27 July 2018). Following further analysis of the greater needs for AdF investments related to technical quality, with Resolution no. 10/2019 of 1 July 2019 the Executive Council of the Tuscan Water Authority produced and submitted to ARERA a new tariff proposal with re-modulation of the 2031 deadline, which the Authority finally approved with Resolution no. 465/2019/R/idr of 12 November 2019, confirming the levels of the original 2018-2019 proposed theta. On 27 November 2020, based on the actual data collected referring to the years 2018 and 2019 and the Investment Plan, the Tuscan Area Governing Body (AIT) approved the tariff revision proposal with the MTI-3 scheme, setting the GRC and the Theta of the years 2020-2023 and also redesigning the entire tariff profile until the end of the IWS concession (Resolution of the Executive Council of the AIT no. 6/2020 of 27 November 2020). This tariff proposal was then sent to the Tuscan AGM by ARERA and approved by ARERA on 2 March 2021. Total revenues of the period, including adjustments to pass-through items, amounted to € 112.1 million and a share of FoNI equal to € 10.9 million.

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

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

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

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

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

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

Umbra Acque

On 26 November 2007, Acea was definitively awarded the contract in the context of the tender procedure launched by the Area Authority for OTA I Perugia for selection of the private minority industrial partner of Umbra AcqueSpA (expiry of the concession on 31 December 2027). The entry into the capital of the company (with 40% of the shares) took place with effect from 1 January 2008.

The company performed its activities in all 38 Municipalities constituting OTAs 1 and 2.

The tariff applied to users for the year 2019 is the rate applied to users was determined by Resolution no. 489 2018/R/idr of 27 September 2018 with which ARERA approved the updating of tariff arrangements for the two-year period 2018-2019, previously proposed by the Assembly of Mayors of the AURI with Resolution no. 9 of 27 July 2018. Finally, we inform you that on 29 December 2018 the request to extend the duration of the assignment to 31 December 2031 pursuant to art. 5.2 and 5.3 of the Convention and Resolution 656/2015/R/idr was formally sent to AURI and ARERA. It should also be noted that the determination of the new tariff plan for the regulatory period 2020-2023 (MTI-3), which includes the outcome of the request to extend the duration of the contract from 4 March 2028 to 31 December 2031 and the acquisition of the new structured loan linked to a bankable regulatory EFP could be significantly reflected in the company's operations, and therefore in the pursuit of the Company's institutional objectives.

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

Geal

The Company manages the Integrated Water Service in the Municipality of Lucca in accordance with the Management Agreements with the local authority expiring on 31 December 2025, updated during 2013 to take into account the memorandum of understanding signed with the AIT on 29 November 2011 and in 2016 pursuant to ARERA Resolution no. 656/2015. With regard to tariffs, it should be noted that ARERA approved the plan for the four-year period 2016-2019 with Resolution no. 726 of 26 October 2017 and approved the related update with Resolution no. 387 of 12 July 2018, also incorporating the request made by Geal for the recognition of the Opex_{cap} component for € 180,000/year. Regarding the four-year period 2020-2023, on the basis of the rules established by ARERA Resolution no. 580 of 27 December 2019, Geal provided all documentation required for preparation of the new plan in the initial months of 2020, in line with the deadlines set by the AIT.

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

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

Integrated Water Service Terni Scpa

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

Progress of the procedure for approving the tariffs

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

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

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

With a specific communication to operators of 5 February 2020, ARERA noted that the checks relating to the proposals for the two-year update of the tariff provisions for the years 2018 and 2019 submitted by AGBs pursuant to Resolutions 917/2017/R/Idr and 918/2017/R/Idr and not yet specifically approved by the Authority will be completed as part of the checks on the specific regulatory frameworks proposed for the third regulatory period (2020-2023), in compliance with the water tariff method MTI-3 referred to in Resolution 580/2019/R/Idr. In the same statement, ARERA also specified that for the two-year period 2018-2019 the tariff determinations adopted by the competent entities remain valid, which will be assessed as part of the quantification of the adjustment components referred to in article 27 of MTI-3 when approving the new regulatory framework.

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

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

Company	Approval status (up to MTI2 "2016-2019")	Two-year update status (2018-2019)	Approval status MTI-3 2020-2023
Acea Ato 2	On 27 July 2016, the AGB approved the tariff inclusive of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. The ARERA then approved them in Resolution 674/2016/R/idr, with some changes compared to the AGB's proposal; quality bonus confirmed.	The Conference of Mayors approved the tariff update on 15 October 2018. On 13 November 2018, ARERA approved the 2018-2019 tariff update with Resolution 572/2018/R/idr. On 10 December 2018, the Conference of Mayors adopted the provisions of the ARERA Resolution.	On 27 November 2020, the AGB approved the tariff for the 2020-2023 regulatory period with Resolution no. 6/2020. ARERA approval is awaited. The term of ninety days defined by Resolution 580/2019 expires at the end of February 2021.
Acea Ato 5	Tariff proposal submitted by the Operator on 30 May 2016, with request for recognition of the $Opex_{qc}$. ARERA warned the AGB on 16 November 2016 and the EGA approved the tariff proposal on 13 December 2016, rejecting, among others, the request for recognition of the $Opex_{qc}$. Approval by the ARERA is awaited.	The Conference of Mayors approved the 2018-2019 tariff update on 1 August 2018. ARERA has not yet given its approval.	On 14 December 2020, the Operator submitted a tariff updated request pursuant to article 5, paragraph 5.5 of ARERA Resolution 580/2019/R/idr MTI-3 of 27 December 2019. On 10 March 2021, the OTAA Conference of Mayors approved the proposed tariff for 2020-2023, with Resolution 1/2021.
Gori	On 1 September 2016, the Extraordinary Commissioner of the AGB approved the tariff with $Opex_{qc}$ as of 2017. Approval by the ARERA is awaited.	On 17 July 2018 the Extraordinary Commissioner of the AGB approved the 2018-2019 tariff update. ARERA has not yet given its approval.	On 18 December 2020, the Operator submitted a tariff updated request pursuant to article 5, paragraph 5.5 of ARERA Resolution 580/2019/R/idr MTI-3 of 27 December 2019. ARERA has not yet issued a warning to the EIC and the EIC has not yet called the Conference of Mayors for tariff approval.
Acque	On 05 October 2017, the AIT approved the tariff with recognition of the $Opex_{qc}$. Approved by ARERA on 9 October 2018 (as part of the approval of the 2018-2019 update).	On 22 June 2018 the AIT Executive Council approved the 2018-2019 tariff update and, at the same time, the request to extend the duration of the 5-year contract, that is until 31 December 2031. With Resolution 502 of 9 October 2018, the ARERA approved the 2018-2019 tariff update.	On 18 December 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 7. The period for ARERA approval ends March 2021.
Publiacqua	On 5 October 2016, the AIT approved the tariff with recognition of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. On 12 October 2017, with Resolution 687/2017/R/idr ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 7 December 2018 the AIT approved the 2018-2019 tariffs with the extension of the 3-year concession. ARERA approved the 2020-2023 tariff provisions and the 2018-2019 two-year update with Resolution 59/2021 of 16 February 2021.	On 26 June 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 3. ARERA approved the 2020-2023 tariff provisions with Resolution 59/2021 of 16 February 2021.
AdF	On 05 October 2016, the AIT approved the tariff with recognition of the $Opex_{qc}$. On 12 October 2017, with Resolution 687/2017/R/idr, ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	The AIT Executive Council approved the 2018-2019 tariff update in the session of 27 July 2018. Pending approval by ARERA, the AIT Board of Directors also approved the application to extend the concession to 31 December 2031, submitted by the Company in April 2019 and approved by the AIT Executive Council on 1 July 2019. The updated tariff proposal was then presented to extend it to 2031, which in any case confirmed the tariff increase (theta) and the Guaranteed Revenue Constraint (GRC) for the years 2018 and 2019, already approved by the AIT with its Resolution of July 2018. ARERA approved the two-yearly update (with a small correction of the recognised $Opex_{qc}$) and the extension of the concession with Resolution no. 465 of 12 November 2019.	On 26 November 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 6. The period for ARERA approval finishes at the end of 2021.

(follows)

Company	Approval status (up to MTI2 "2016-2019")	Two-year update status (2018-2019)	Approval status MTI-3 2020-2023
Geal	On 22 July 2016, the AIT approved the tariff with recognition of the $Opex_{qc}$. On 26 October 2017, with Resolution 726/2017/R/idr ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 12 July 2018 ARERA approved the 2018-2019 tariff update proposed by AIT.	On 28 September 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 4. The period for ARERA approval finished at the end of December 2020.
Acea Molise	Following Resolution no. 664/2015/R/idr, both for the Municipality of Campagnano di Roma (RM) and the Municipality of Termoli (CB), Municipalities where Crea Gestioni offers the IWS, neither the Granting Body nor the Area Authority of reference submitted a tariff proposal for the regulatory period 2016-2019, so the Company independently submitted tariff proposals. Currently approval by the ARERA is still pending.	The Company has submitted the data to the competent parties/AGB in order to update the 2018-2019 tariff. For the management of the IWS in the Municipality of Campagnano di Roma (RM), given the inaction of the designated parties the Company filed an application with ARERA in early January 2019 for a tariff adjustment in 2018-2019, also revising the 2016-2019 proposal. ARERA has not yet pronounced or issued a warning to the AGB and/or to the competent parties. For the management of the IWS in the Municipality of Termoli (CB), with a Resolution dated 17 December 2019 the Municipal Council of Termoli approved the alignment of the pre-existing Agreement to the Agreement template, extending its expiry to 31 December 2021, and confirmed the tariff increase (theta) and the Guaranteed Revenue Constraint (GRC) for 2018 and 2019, also revising the 2016-2019 proposal. ARERA has not yet given its approval.	Discussions with the EGAM are in progress for the 2020-2023 tariff provisions.
Gesesa	On 29 March 2017 with Resolution no. 8 of the Extraordinary Commissioner the OTAA1 approved the tariff provisions for the years 2016-2019. Currently approval by the ARERA is still pending.	The Company submitted the documentation relating to the 2018-2019 tariff review to the Area Authority and the preliminary investigation by the technical offices of the competent AGB (EIC – Campania Water Authority) was completed at the end of February 2020. The final approval of the EIC Executive Committee has not yet been given.	On 29 December 2020, the Operator submitted a tariff updated request pursuant to article 5, paragraph 5.5 of ARERA Resolution 580/2019/R/idr MTI-3 of 27 December 2019. ARERA has not yet issued a warning to the AGB and the AGB has not yet called the Conference of Mayors for tariff approval.
Nuove Acque	On 22 June 2018, the AIT Executive Council approved the rates.	On 16 October 2018 with Resolution 520 ARERA approved the 2018-2019 tariff update proposed by the AIT.	On 27 November 2020 the Executive Council of the AIT approved the 2020-2023 tariff provisions with Resolution no. 5. The period for ARERA approval finishes at the end of 2021.
Umbra Acque	On 30 June 2016, the AGB approved the tariff with recognition of the $Opex_{qc}$. The ARERA then approved them in Resolution 764/2016/R/idr dated 15 December 2016.	In its session of 27 July 2018, the AURI Assembly approved the 2018-2019 tariff update. The ARERA approved the 2018-2019 tariffs with Resolution no. 489 of 27 September 2018.	AURI approved the 2020-2023 tariff provisions with Resolution no. 10 of 30 October 2020. ARERA approved the same with Resolution 36/2021 of 02 February 2021.
S.I.I. Terni S.c.a.p.a.	On 29 April 2016, with Resolution no. 20, AURI approved the tariff multiplier for the 2016-2019 four-year period and with determination no. 57 it approved the adjustment for previous items. ARERA approved the 2016-2019 tariff provisions with Resolution 290/2016 of 31 May 2016.	With Resolution of the Executive Council of AURI no. 64 of 28/12/2018, approval was given to the 2018-2019 two-year update. With Resolution 464/2018 of 20 September 2018, ARERA approved the 2018-2019 two-year update.	AURI approved the 2020-2023 tariff provisions with Resolution of the Assembly of Mayors no. 12 of 30 October 2020. ARERA provided approval with Resolution 553/2020 of 15 December 2020.

REVENUES FROM THE INTEGRATED WATER SERVICE

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

MTI-3 Tariff Method, since discussions with the respective AGBs are ongoing. The data also include the adjustments of passing items and the Fo.NI component.

Company	Revenue from the IWS (pro quota values in € million)	Fo.NI. (pro quota values in € million)
Acea Ato 2	655.2	FNI = 42.5 AMM _{FoNI} = 11.0
Acea Ato 5	80.7	FNI = 3.7 AMM _{FoNI} = 4.2
Gori	199	AMM _{FoNI} = 3.2
Acque	73.8	AMM _{FoNI} = 4.3
Publiacqua	99.1	AMM _{FoNI} = 12.1
AdF	112.1	AMM _{FoNI} = 10.9
Gesesa	13.4	AMM _{FoNI} = 0.1
Geal	8.3	AMM _{FoNI} = 0.8
Acea Molise	5.3	-
S.I.I.	16.1	FNI = 0.2 AMM _{FoNI} = 1.8
Umbra Acque	32.6	-

ENERGY INFRASTRUCTURE

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

Operating data	U.M.	31/12/2020	31/12/2019	Change	Change %
Energy produced	GWhe	524	572	(48)	(8.5%)
Thermal Energy produced	GWht	41	52	(11)	(21.4%)
Electricity distributed	GWh	9,096	9,849	(753)	(7.6%)
No. of customers	N/1000	1,644	1,641	2	0.2%
Km of network	km	30,785	30,627	158	0.5%

Equity and financial results

€ million	31/12/2020	31/12/2019	Change	Change %
Revenues	696.7	682.5	14.2	2.1%
Costs	283.8	290.6	(6.8)	(2.3%)
EBITDA	412.9	392.0	21.0	5.4%
Operating profit/(loss) (EBIT)	227.2	237.7	(10.5)	(4.4%)
Average workforce	1,353	1,354	(1)	(0.1%)
Capex	325.1	287.8	37.4	13.0%
Net financial debt	1,566.7	1,320.5	246.2	18.6%

EBITDA

€ million	31/12/2020	31/12/2019	Change	Change %
EBITDA – Energy Infrastructure Segment Adjusted	412.9	392.0	21.0	5.4%
EBITDA – Group	1,155.5	1,042.3	113.2	10.9%
Percentage weight	35.7%	37.6%	(1.9 p.p.)	

The EBITDA at 31 December 2020 was € 412.9 million, an increase of € 21.0 million compared to 31 December 2019. The change can be attributed to the company **areti** (+ € 26.5 million) and is primarily a result of: 1) equalisation of distribution revenues due to the different value of tariff parameters; 2) the change in amounts and different consumption profile in the tiers and equalisation for previous years; 3) *regulatory accounting* (+ € 6.0 million) for remuneration of investments net of amortisation charges (+ € 8.2 million) and the portion of revenues linked to 1G meter swapping (+ € 1.2 million); 4) positive energy balancing as per ARERA Resolution 162/20 (+ € 11.7 million) and 5) also as a result of the effects connected to the reduction in network losses (+ € 7.6 million).

As regards the energy balance, at 31 December 2020 **areti** distributed 9,096 GWh to end customers, recording a 7.6% decrease compared to 2019.

The EBITDA for **Public Lighting** is negative by € 2.0 million, a decrease of approximately € 3.9 million compared to 31 December 2019, due to faults and lacking authorisations for new projects.

Acea Produzione contributed a total of € 32.5 million to EBITDA, down from 31 December 2019 by € 6.2 million, mainly as a result of lower quantities and the price effect.

Finally, EBITDA for the photovoltaic segment was € 12.0 million, up € 8.5 million, primarily due to the effect of the change in scope.

The average workforce was in line with the previous year. Note that the new photovoltaic companies do not have employees.

The operating result was mainly affected by the increased amortisation, depreciation and write-downs for the period, in line with the increase in investments. In addition, the effect of the acceleration of depreciation (started at year-end 2019) of first-generation electric meters according to the swap plan for the installation of second-generation meters affected the increase for the period.

Investments amounted to € 325.1 million, with those of **areti** (€ 282.6 million) pertaining to the renovation and expansion of the HV, MV and LV networks, works on primary and secondary cabins and on meters, while intangible investments refer to projects for the re-engineering of information and commercial systems. Starting from the previous year the so-called “Resilience Plan” was implemented, which consists of works on substations and on the MV and LV grids and projects aimed at limiting the probability of disconnection resulting from the grid’s main accident risk factors. Investments made by **Acea Produzione** amount to € 14.8 million

mainly for the extraordinary maintenance of the Orte, Sant’Angelo and Salisano hydroelectric plants and the Tor di Valle and Montemartini thermoelectric plants.

Also worth noting are the investments made by **Acea Solar** for the activities preparatory to the construction of photovoltaic plants amounting to € 17.6 million.

Net financial debt stood at € 1,566.7 million as at 31 December 2020, showing an increase of € 246.2 million compared to 31 December 2019, with € 12.7 million attributable to the change in scope and € 200.7 million to **areti** as a result of the increasing volume of investments and the dynamics of operating cash flow.

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

Gala

With Resolution 50/2018/R/eel of 1 February 2018, the Authority approved a mechanism for recognising charges otherwise not recoverable due to the failure to collect general system charges.

At 31 December 2020 the total receivables accrued by the Company amounted to € 73.7 million, including billed interest. Such interest was excluded from the mechanism for the reinstatement of general charges by Resolution 300/2019/R/eel and subsequently readmitted to the mechanism by Resolution 495/2019/R/eel.

With Circular no. 2/2020/ELT of 30 January 2020, CSEA prepared a method for adding the applications already submitted in order to include the portion relating to interest on arrears invoiced in accordance with the initial provisions of art. 1.4, letter a), number 4) of Resolution 50/2018/R/eel. On 18 February 2020, a formal request to participate in the mechanism for reimbursing the default interest billed was formally submitted and the amount requested was received equal to € 2.9 million on 30 March 2020.

On 27 December 2019 Resolution 568/2019/R/eel was also issued, which provides for the reimbursement of amounts due not otherwise recoverable relative to network services equivalent to the model for the recognition of uncollected general system charges. This mechanism was confirmed with Resolution 461/2020/R/eel published on 19/11/2020, which better defined the methods for access to the reimbursement request. This Resolution included recognition of tariff fees for electricity metering, distribution and transmission services, the UC3 and UC6 tariff components and certain fees for specific services, regarding invoices expired by at least 12 months, net of a 10% deductible.

The Authority set date of 30 June 2021 as the limit for presentation of applications for admission to the mechanism, nevertheless offering DSOs the option, to request a 50% advance of the reimbursement amount due with requests to be sent by 07 December 2020 and payment by 31 December 2020. Areti SpA therefore decided to take advantage of this option, sending a request for participation on 04 December 2020. The total amount for network services for Gala for network tariffs uncollected is approximately € 11.0 million, while the amount paid by CSEA with value date 30 December 2020 as payment of balance was € 5.4 million.

Currently, also taking into account the changes in the regulatory framework deriving from the approval of the mechanism for reimbursing general expenses accrued over time, the reduction in the value of the areti receivable from Gala was prudentially determined.

It should also be noted that with Resolution no. 583 of 20 November 2018, the ARERA rejected the complaint presented by Gala Power S.r.l., a company of the Gala Group, regarding areti's refusal to stipulate a transport contract with it given the established existence of a single decision-making centre subsisting between Gala Power and its Parent Company Gala, in light of the significant debt exposure accrued by the latter with respect to areti. Gala Power appealed against the Authority's decision before the Lombardy Regional Administrative Court - Milan, Section I, judgement no. 1936 published on 2 September 2019 and not served. This judgement was appealed before the Council of State on 29/11/2019.

It should also be noted that with Resolution no. 181 of 14 May 2019 ARERA rejected the complaint submitted by EEMS ItaliaSpA, also a Gala Group company, against areti's refusal to enter into a transport contract with that company, deeming the claim made by the complainant unfounded on the grounds that since it had not established any direct or indirect relationship with at least one end customer, it did not meet the mandatory condition laid down in the regulation for the validity of the transport contract. Following this rejection, EEMS submitted an appeal to the Lombardy Regional Administrative Court on 25 July 2019. On 27 August 2019 EEMS Italia again requested to enter into a transport contract. In response to the request for clarification sent by the Company, EEMS ItaliaSpA filed a new complaint with ARERA that was again rejected on 04 August 2020 (Resolution no. 304 of 04 August 2020). This order was also challenged by EEMS before the Lombardy Regional Administrative Court with appeal on additional grounds.

It should be noted that with sentence no. 270 of 6 February 2019 the Lombardy Regional Administrative Court fully rejected the appeal filed by GalaSpA against ARERA Resolution 109/201/R/eel of 6 March 2017 concerning guarantees for the collection of general electricity system costs. A hearing is awaited before the State Council and areti SpA has established itself as in opposition.

Technological innovation projects

2G digital meter project

In an increasingly advanced technological and energy context, the "2G Digital Meter" project was launched by areti with the aim of replacing the first-generation electricity meter system with the 2G Smart Metering system in compliance with the requirements of ARERA Resolution 306/2019/R/eel.

In this regard, in April 2019 areti had launched the procedure for the selection of the supplier of the field equipment (meters and concentrators) and the related Central Purchasing System (Management Centre) which ended in September 2019 with the publication of the award.

The supplier selected for provision of the 2G Smart Metering system was Enel Global Infrastructure & Networks.

Following conclusion of the tender procedure, on 14 September 2019 the Request for Authorisation to Recognise Investments (RARI) was submitted to ARERA, which was subject to further refinement from January 2020, until submission of a new version on 08 April 2020. On 30 April 2020, areti received communication from ARERA of the results of the investigative activities which declared that the request could be approved, but in relation to development of the health emergency in progress and actions to combat the spread of the Covid-19 epidemic, it was requested that areti update the plan by 30 June 2020, with the option to request an extension of this date. Areti submitted a request to postpone presentation of the updated plan until 15 July 2020. Following presentation of the updated plan on 14 July 2020, with Resolution no. 293/2020 of 28 July 2020 ARERA approved areti's PMS2, as updated on 14 July 2020, and set the date for initiation of areti's PMS2 as 1 January 2021, admitting the investments regarding the 2G smart-metering system of areti to the scheme for specific recognition of capital costs, starting from the same date.

Considering the difficulties linked to Coronavirus and in line with the restrictions and operational limits to contain spread of the virus, installation of concentrators began in July 2020 and the first 2G meters (pilots) in September 2020, followed by launch, with operational continuity, of the mass replacement of meters in the month of October 2020. On 31 December 2020, the number of installations performed was approximately 3,000 concentrators and 59,000 meters, exceeding the targets set in the RARI.

Following launch of the initial installations in the field of concentrators (July 2020) and 2G meters (September 2020) for which further details will be provided later in the document, monitoring initiatives are underway involving various company divisions, looking at processes/systems impacted by the 2G metering process already in progress:

- installation and configuration of 2G meters in the field;
- acquisition of records and trends for management centre;
- validation and publication of records and trends.

The development of the application map continues unabated, and all the latest features planned for wave 3 were released into production on 7 August.

Areti's single EData Lake

Q4 2020 saw the consolidation of the areti project initiative launched in 2018 in partnership with SAS Institute with the aim of making data available for the distribution business. The calculation infrastructure operates in the Google Cloud environment. Activities run from the definition of a data model to the process of releasing it to an analysis environment, including infrastructure management. The current sources for the procurement of data are: SAP HGP, the extranet server, third-party FTP servers, specific Oracle databases.

As for data integration, to date the following are available:

- 1G remote management system, both for LANDIS and GME meters
- Company GIS mapping system
- Integrated Low Voltage Network Survey in all tabular areas
- SAP (IS-U and MDM)
- TESS system (commercial quality)
- Radar/Meteo weather data recorded and forecasts
- SAP PM
- SAP MM
- SAP IS-U PDFM
- Remote management system

Further data integration is ongoing according to the priorities dictated by the business, with reference to the 2G Management Centre.

Network diagnostics and monitoring project

The project is divided into three main lines of action:

- Primary station diagnostics
- Substation diagnostics
- Overhead line diagnostics

1. Primary station diagnostics with UGV Drones: the project involves the development of an UGV (Unmanned Ground Vehicle) prototype for autonomous or remotely piloted inspection of primary stations. The Autonomus UGV drone has sensors for detecting environmental parameters (temperature sensors, partial discharges, cameras) and sensors for moving autonomously in the environment (lidar, GPS and cameras). It executes inspection plans independently and can be remotely controlled for targeted security checks and operations. The system may also transmit inspection information to an operator located at a location other than the place of operation. During 2020 activities continued for optimisation of the Autonomus prototype, developed in 2019 for Primary Station monitoring. Specifically, for the Autonomus project, work to optimise the prototype's autonomous driving, pointing and monitoring functions was completed. The development of a parking and charging station was completed, which will make the drone completely autonomous for future operations, and the construction of a control station for the management of the drone from the central system was started. As part of this project, a system for transmitting the ultrasonic signal of Partial Discharges was also developed and patented. The system is used when the partial discharge sensor and the monitoring instrument cannot be connected by cable. For example, if applied on UAV drones or on wheeled or tracked UGV robots.
2. Substation diagnostics (CS-Plus): the project involves testing an integrated IOT solution for remote monitoring, diagnostics and management services: e.g., environmental parameters, digital access management, etc. During 2019, scouting was conducted for implementation of POC, concluded in 2020 for both the peripheral sensors part and the central management part of data collection through the IOT platform. In 2020 testing was conducted with various suppliers that led to consolidation of the solution and definition of specifications for the peripheral architecture side. A solution is also undergoing testing for smart access control.
3. Overhead line diagnostics: the project involves the combination of periodic analyses of satellite images using artificial intelligence algorithms (developed to detect man-made and/or vegetation interference) and targeted inspections with drones to enable a continuous monitoring of overhead lines. During 2020, the platform for management of the process was developed and went live and operation of the process itself was launched. The process was found to be highly innovative both by the Politecnico di Milano university Drone observatory and Space Economy observatory.

Primary station automation project

The objective of the project is to define a new architecture for the Command and Control Protection System of the Primary Station (CP) oriented towards the reduction/simplification of low voltage wiring, the use of standard protocols developed for communication between the equipment in the field and the Command and Control Protection System, as well as towards the Remote Control System. It also aims to define and implement concise remote control and automation commands, as well as the provision of remote access to CP data for maintenance and analysis. The Covid-19 emergency heavily impacted planned activities. Nevertheless, during 2020, courses were held on the new remote-control peripheral apparatus in the Primary Station. At the Collantina site a laborato-

ry was set up to verify communication between the peripheral apparatus and the new Enel unified digital protection devices. Tests did not give satisfactory results and evaluation is underway of alternative methods to achieve the indicated functions.

Development of areti telecommunications network

The TLC project involves the creation during 2020-2021 of a high-speed and high-reliability fibre-optic network that will link all primary stations. These will represent the main backbone of the network from which all smart-grid services will be launched. This network structure will ensure security and reliability in the transmission of information between the centre and the periphery useful to allow the proper operation of Operation Technology systems and network management systems, also the remote control of equipment installed in substations and, where possible, the metering points and other types of sensors in order to convey to the central systems all the information acquired through sensors and field equipment. This network will also allow implementation of advanced automation for most substations, in order to significantly improve the quality of the electricity service.

Over a three-year period, primary stations and about a thousand substations will be connected via fibre optics (owned or IRU). This objective will be made possible thanks to the synergy between the optimisation of the electrical grid and the laying of fibre optics, which will substantially reduce the impact on the territory by reducing the inconvenience for the public.

Public Lighting

As at 31 December 2020 extraordinary maintenance and modernisation and safety activities agreed to with Roma Capitale continued regularly, thus creating new lighting points as part of the lighting re-engineering and development projects. Regarding the Public Lighting service, following the opinion given by the AGCM (Antitrust Authority) in Bulletin no. 49 of 14 December 2020, Roma Capitale began checking the conditions of congruity and economic convenience of the performance terms pursuant to the service contract between the Administration and Acea SpA (and through it areti) compared with the terms pursuant to the CON-SIP – Luce 3 Convention and, in addition, on the basis of the positions expressed by the AGCM in the said opinion, expressed queries over the legitimacy of the award to Acea SpA. The position taken by Roma Capitale therefore identifies possible critical issues in relation both to continuation of the service on behalf Acea SpA and recovery of amounts invoiced and not paid by Roma Capitale at 31 December 2020 for provision of the Public Lighting service.

Production of electricity

The production system of Acea Produzione currently consists of a series of generation plants with total installed capacity of 225.2 MW, composed of five hydroelectric plants (three located in Lazio, one in Umbria and one in Abruzzo), fifty-two photovoltaic plants (with installed capacity of 8.6 MWp), two two “mini hydro” plants, Cecchina and Madonna del Rosario, two thermoelectric power stations, Montemartini and Tor di Valle, the latter consisting of a modern high-efficiency cogeneration plant, replacing the previous combined-cycle plant. The new plant consists of two high-efficiency methane gas powered engines each with an electrical power of 9.5 MW, for a total of 19 MW, as well as three additional boilers and 6 storage tanks. In the current configuration, in addition to selling electricity to the market during the most profitable hours, the plant provides electricity in SEU to the total electricity users of the adjoining Rome South Treatment Plant and the thermal energy necessary for the supply of district heating service in the districts of Torrino Sud, Mostacciano and Mezzocammino in the Municipality of Rome.

In 2020, the Company generated a volume of 468.6 GWh through the directly owned power plants. During the period, the

Company's production was subdivided into hydroelectric plant production of 368.7 GWh, production from mini-hydro plants of 1.7 GWh, thermoelectric production of 87.1 GWh and photovoltaic production of 11.1 GWh. The Company's production mix is mainly from renewable sources with "green" production representing approximately 90% of the total. In addition, about 60% of total production is incentivised following investments in hydroelectric power plants or participation in the "feed-in tariff" scheme for the photovoltaic segment.

With regard to district heating, the Company, through the cogeneration module of the Tor di Valle power plant, supplied heat to the Torino Sud and Mostacciano districts (located in the south of Rome) for a total of 66.29 GWh, for a total of 3,525 utilities served (259 condominiums and 3,266 real estate units).

Co-generation

The operational management of Ecogena focuses mainly on three areas: 1) consulting in the Esco sector and provision of services related to obligations to increase the energy efficiency of third parties (inside or outside of the Acea Group); 2) the supply of energy services through the management of cogeneration (or trigeneration) plants and district heating networks and the sale of energy produced to Customers; and 3) the coordination of Group companies with regard to energy-efficiency projects.

The Company's production system is made up of a set of cogeneration plants, combined with district heating networks, for a total of 4.0 MW of installed capacity in Umbria and Lazio. The production of thermal and refrigeration energy is decreasing compared to previous years due to a milder winter season than last year and the decrease in the absorption of management customers (especially for the Europarco contract) following the Covid-19 emergency. As at 31 December 2020, Company achieved a production volume of around 10.0 GWh (electricity), 20.9 GWh (thermal) and 9.9 GWh of refrigeration.

With regard to Europarco's trigeneration plant, the expansion of the plant has been completed, doubling the cooling capacity installed in the plant with a relative increase in electricity. A third boiler has also been added. The entire project was carried out by reusing and exploiting the plants in the Cinecittà World facility, which is being divested. In December the tender procedure was completed for selection of the supplier that will add a second 400 kW cogenerator on the site.

In April, the new configuration of the Porta di Roma plant was put into operation, including a new 3.3 MWt boiler as part of a substantial modification authorised in 2012. The plant's management system was also modernised,

In September, work was completed on the addition of the third 240 kW boiler at the Saxa Rubra plant. At the same time, work was

completed on the renovation and upgrading of the plant's remote-control systems.

On behalf of Acea Innovation, Ecogena performed activities regarding services for design and permissions of the first five lots of the Acea Group mobility plan. It is noted that following approval of the commercial offer and preparation of the contract, Ecogena delivered the plans for charging infrastructure to the competent Department of the Municipality of Rome on 07 August 2020.

Following this submission and meetings held at the Mobility Department of the Municipality of Rome, it was necessary to proceed with a phase of redefinition of the lots submitted and re-design of certain elements of the plans. Following these amendments, with the determination of 11 November 2020, the Department approved 115 charging stations (87 new systems) and in a second session of the Services Conference (SC) it approved a further 19 systems.

The SC was followed by preparation of requests for excavations licences for the 87 systems approved in the first phase, which will be followed by requests for licences for the other 19 systems in the initial months of 2021.

Tender procedures were also completed for procurement of the materials (by AI) and services (by Ecogena), planning the works which, according to plans, currently without requirements expressed by the municipalities during the licence-approval phase, shall begin in the first ten days of March 2021.

New photovoltaic acquisitions

It should be noted that during 2020, in line with the Business Plan, the Acea Group continued to acquire companies in the photovoltaic market. As at 31 December 2020 18 companies were acquired for a total installed capacity of approximately 33.6 MW. It should also be noted that during the first half of the year 49% of Energia SpA's capital was acquired, which has a total installed capacity of 7.7 MW. Finally, please note that in July 49% of Belaria S.r.l. was acquired, with installed capacity of 3.0 MW.

Acea also completed the acquisition of Fergas Solar SpA, owner of a single authorisation for the construction of a 20 MW solar power plant in Basilicata, and has obtained authorisation for the construction of a 5 MW power plant on its own industrial land in Lazio and for a 15 MW portfolio in Lazio. In the development of greenfield photovoltaics, Acea is also carrying out a balanced mix of projects, with particular attention to areas of an industrial nature, and has a total of over 400 MW in the pipeline.

Merger of photovoltaic companies

It should be noted that as part of the corporate reorganisations of the Energy Infrastructure Segment, the merger of some photovoltaic companies was completed in July 2020, with accounting and tax effects dating back to 1 January 2020.

ENGINEERING AND SERVICES

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

Operating data	U.M.	31/12/2020	31/12/2019	Change	Change %
Total number of analyses	n.	1,142,720	1,159,931	(17,211)	(1.5%)
Total number of samples	n.	36,266	36,367	(101)	(0.3%)
Worksite inspections	n.	14,904	12,481	2,423	19.4%
Safety coordination	n.	286	225	61	27.1%

Equity and financial results

€ million	31/12/2020	31/12/2019	Change	Change %
Revenues	88.9	79.0	9.9	12.6%
Costs	74.2	66.0	8.2	12.4%
EBITDA	14.7	13.0	1.7	13.5%
Operating profit/(loss) (EBIT)	10.3	10.5	(0.3)	(2.4%)
Average workforce	373	281	92	32.9%
Capex	6.6	1.8	4.8	n.s.
Net financial debt	31.1	6.7	24.4	n.s.

EBITDA

€ million	31/12/2020	31/12/2019	Change	Change %
EBITDA – Engineering and Services Segment	14.7	13.0	1.7	13.5%
EBITDA – Group	1,155.5	1,042.3	113.2	10.9%
Percentage weight	1.3%	1.2%	0.0 p.p.	

This Segment closed 2020 with an EBITDA of € 14.7 million, for an increase of € 1.7 million (+ 13.5%) compared to the previous year. This change results from opposing effects deriving on the one hand from **Acea Elabiori**, which recorded a reduction of € 3.9 million due to the internalisation of leak searches in operating companies, as well as other effects related to the restructuring of TLC activities and the consolidation of SIMAM (+ € 5.2 million), acquired during the month of May. The Segment also includes **Ingegnerie Toscana**, an engineering company that provides technical support services in the water-environmental sector, and **TWS**, a company that operates mainly in the construction and renovation of works instrumental to the operation of the Integrated Water Service, and in particular of water treatment plants – drinking water and wastewater – as well as design and engineering services as they relate to plant construction. These companies recorded EBITDA of € 2.4 million and € 1.7 million, respectively.

The average workforce at 31 December 2020 stood at 373 and was up compared to 31 December 2019 (281 employees). This increase is attributable to inclusion within the Group's scope of **SIMAM** (+ 77 employees) and the increase recorded by **Acea Elabiori** (+15 employees).

Investments amounted to € 6.6 million, mainly related to industrial equipment purchased by **Acea Elabiori** (€ 4.2 million). The change in the scope related to SIMAM contributed € 2.4 million.

Net financial debt at 31 December 2020 was equal to € 31.1 million, down € 24.4 million compared to 31 December 2019. This change

was due to **Acea Elabiori** for € 29.2 million as a result of the increase in requirements generated by changes in working capital, partly offset by TWS for € 6.5 million due to revenues for work carried out with Publiacqua and Umbriadue. Consolidation of **SIMAM** contributes to worsening in net financial debt for € 1.7 million.

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

07 May 2020 saw finalisation of the agreement for the acquisition of 70% of the capital of SIMAM SpA (Servizi Industriali Manageriali Ambientali), a leading company in the design, construction and management of mobile water and waste treatment plants, in environmental works and reclamation, with hi-tech integrated solutions. The acquisition is an evolution of the Segment to ensure efficiency and flexibility of support for the operating companies, providing value to the Group and strengthening internal know-how, with the standardisation of production solutions and the application of new technologies in the field of Design and Project Management. Synergies were immediately put in place with the launch of development sites and integration projects.

The economic value of the transaction, in terms of enterprise value for 100% of the company, is equal to € 30 million. The agreement envisages the possibility of acquiring additional shares of up to 100% of the company from 2023. The expected annual contribution to EBITDA is approximately € 7 million. Finally, it should be noted that on 24 July 2020 the price adjustment amounted to € 1.3 million.

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE PERIOD

Equity and financial results

€ million	31/12/2020	31/12/2019	Change	Change %
Revenues	131.1	142.6	(11.4)	(8.0%)
Costs	165.7	148.1	17.6	11.9%
EBITDA	(34.6)	(5.6)	(29.0)	n.s.
Operating profit/(loss) (EBIT)	(55.7)	(24.3)	(31.4)	129.22%
Average workforce	700	668	32	4.7%
Capex	28.5	21.2	7.3	34.5%
Net financial debt	283.2	250.4	32.8	13.1%

EBITDA

€ million	31/12/2020	31/12/2019	Change	Change %
EBITDA – Corporate Segment	(34.6)	(5.6)	(29.0)	n.s.
EBITDA – Group	1,155.5	1,042.3	113.2	10.9%
Percentage weight	(3.0)%	(0.5)%	2.5 p.p.	

Corporate closed 2020 with a negative EBITDA of € 34.6 million, down by € 29.0 million compared to 31 December 2019. The change can be attributed to the combined effect of multiple phenomena, including booking in 2019 of out-of-period income of € 16.2 million as a result of the decision of the Regional Administrative Court to annul the fine imposed by the Italian Antitrust Authority, the increase in operating costs due in part to the Covid-19 emergency, the increase in personnel costs (larger workforce) and the launch of various projects, offset only partially by higher re-invoicing to the Group companies.

The average workforce at 31 December 2020 stood at 700 employees and was slightly up compared to the previous year (668 employees).

Investments amounted to € 28.5 million and increased by € 7.3

million, compared to 31 December 2019. Investments mainly refer to IT developments and hardware (+ € 7.1 million) and investments in the company offices (+ € 0.2 million).

Net debt at 31 December 2020 amounted to € 283.2 million, an increase of € 32.8 million compared to the end of 2019. This change derives from the Group and Acea needs generated by investments and operating cash flow dynamics. It is also noted that acquisitions during the year played a determining role. Regarding the stake in Alto Sangro Distribuzione Gas, it is noted that there was a decline of € 19.7 million.

SIGNIFICANT EVENTS FOR THE 2020 FINANCIAL YEAR

No significant events are reported during the period observed.

SIGNIFICANT EVENTS DURING THE PERIOD AND AFTERWARDS

Acea SpA successfully placed a nine-year € 500 million bond issued under the EMTN Programme

Following the Board of Directors' Resolution of 22 January 2020 and the completion of bookbuilding, on 29 January 2020 it successfully completed the placement of a non-convertible bond loan for a total principal amount of € 500 million, maturing on 6 April 2029 and at a rate of 0.50%, under the € 4 billion Euro Medium Term Notes (EMTN) programme, with the Base Prospectus as last updated on 15 July 2019 and subsequently supplemented on 27 January 2020 (the "Bonds").

The Bonds are intended exclusively for institutional investors in the Euromarket. The issue was successful, receiving requests equal to about 3 times the amount of the Bonds offered, by investors of primary rank and representative of many geographical areas.

The Bonds have a minimum unit denomination of € 100,000 and have been placed at an issue price of 99.20%, which implies a yield of 0.59%. The Bonds are governed by English Law. The settlement date was set at 6 February 2020. From that date the Bonds will be listed on the regulated market of the Luxembourg Stock Exchange, where the prospectus was filed.

The proceeds from the issue of the Bonds will be used to finance the Company's ordinary activities, as well as to support the investments envisaged in the business plan for the three-year period 2020-2022.

Acea SpA growth in the field of waste management and treatment

On 22 April Acea finalised an agreement for the acquisition of 60% of the capital of the companies Ferrocarrile S.r.l. and Cavallari S.r.l. (which holds 100% of Multigreen S.r.l.), engaged in the storage, treatment and sorting of waste.

The companies, which own a total of four plants with a total authorised capacity of over 145 thousand tonnes per year, operate in the provinces of Terni and Ancona, carrying out sorting and recovery of paper, iron, timber, plastics and metals. They are also active in the management of the separated collection of production and packaging waste as well as in the disposal of waste, mainly on behalf of Corepla ("National Consortium for the Collection, Recycling and Recovery of Plastic Packaging"). The economic value of the transaction, in terms of enterprise value for 100% of the two companies, is about € 25 million. The companies will be 100% consolidated by Acea, with an expected annual contribution to EBITDA of approximately € 4.5 million.

For Acea, this represents an important step forward in the path of infrastructure growth in the field of waste treatment and further investment in the circular economy, in line with the provisions of the 2019-2022 Business Plan and sustainability objectives.

Acea SpA growth in the sector of the design and construction of plants for the environment and water treatment

On 7 May Acea finalised an agreement for the acquisition of 70% of the capital of SIMAM SpA (Servizi Industriali Manageriali Ambientali), a leading company in the design, construction and management of water and waste treatment plants, in environmental works and reclamation, with integrated solutions featuring high technological content. The economic value of the transaction, in terms of enterprise value for 100% of the company, is equal to € 30 million. The agreement envisages the possibility of acquiring additional shares of up to 100% of the company from 2023.

The company will be 100% consolidated by Acea, with an expected annual contribution to EBITDA of approximately € 7 million.

With the acquisition of SIMAM, Acea vertically integrates its areas of expertise, strengthening its capacity in the construction of infrastructure, ensuring efficiency and flexibility in the operational management of industrial activities, in particular in the circular economy.

Acea SpA Fitch Ratings confirms Acea's "BBB+" rating and "stable" outlook

On 12 May Fitch Ratings confirmed its Long-Term Issuer Default Rating (IDR) for Acea of "BBB+" with "Stable" outlook and the Short-Term IDR of "F2", despite the recent "downgrading of the Italian sovereign rating". The Long-Term Senior Unsecured Rating of "BBB+" was also confirmed.

The opinion reflects Acea's strategic focus on regulated activities, the consolidation of positive operating performance and the good level of liquidity available.

Acea SpA the Shareholders' Meeting of Acea approves the Financial Statements as at 31 December 2019 and approves the payment of a dividend of € 0.78 per share

On 29 May 2019 the Acea SpA Shareholders' Meeting approved the Financial statements and presented the Consolidated Financial Statements at 31 December 2019.

The Shareholders' Meeting appointed the new Board of Directors defining the relevant fees. The Board of Directors will remain in office for three financial years until the approval of the Financial Statements for 2022.

The Board appointed Giuseppe Gola as Managing Director of the Company.

Acea SpA standard Ethics raised Acea's Outlook from "Stable" to "Positive". The current rating is "EE-". The Company is part of the SE Multi-Utilities Index

On 27 July, Standard Ethics raised Acea's Outlook from "Stable" to "Positive" thanks to the development of sustainability strategies that are consistent and aligned with international guidelines. The scope of ESG (Environmental, Social and Governance) actions adequately covers industrial, technological, social and territorial aspects. More recently, the implementation process has also involved the sustainability governance system, control tools and risk management. Moreover, significant efforts appear to have been made with respect to gender equality and the promotion of diversity, starting with the qualitative and quantitative composition of the top-level organs. Reporting appears adequate and aligned with the most advanced standards.

Acea SpA completion of the acquisition of 51% of the share capital of the company Alto Sangro Distribuzione Gas

On 31 August, Acea completed acquisition of 51% of the capital of the company Alto Sangro Distribuzione Gas S.r.l., which operates in the distribution of methane gas, and is present in 24 municipalities of the province of L'Aquila belonging mainly to Atem Aquila 3, and owns almost all of the gas distribution infrastructure, consisting of 537 km of network and about 34 thousand grid points.

Acea SpA initiation of the plan for replacement of electricity meters with new second-generation devices

In October, the plan was launched for replacement in the Capital of

electricity meters with second-generation smart meters. In the city of Rome, more than 2 million meters were installed with a total investment of approximately € 300 million. ARERA approved the Commissioning Plan of the 2G Smart Metering System presented by areti, the Acea Group company that manages distribution and metering of electricity in the municipalities of Rome and Formello. The plan, which will run for 15 years, from 2020 to 2034, involves the replacement of current first-generation (1G) electricity meters with 2G smart meters for all users in the municipalities served by areti.

Replacement of the meters marks the entry into use of the electricity grid of the 2G technology, with significant benefits for users, sellers and distributors. With the 2G smart meters, using a metering system that makes data available after just 15 minutes, customers can easily check their consumption and adapt it based on their daily domestic habits. The functionality of the new smart-metering system will also enable and promote the use of advanced services to improve energy efficiency and protect the environment. New technologies will also allow identification of faults on local grids and meters more efficiently, reducing service restoration times and problems for citizens.

Specifically, the fifteen-year plan includes a phase of mass replacement of electricity meters, which began in October and will be completed at the end of 2025. This mass replacement phase was preceded by a pilot phase in September in the Rome IX Municipality.

Acea SpA the Board of Directors approves the 2020-2024 Business Plan

On 27 October 2020, the Board of Directors of Acea approved the 2020-2024 Business Plan, which focuses heavily on sustainability. The Plan's main goals are: 1) average annual growth in EBITDA of approximately 7%, € 1.3 billion in 2022 and € 1.4 billion in 2024 with a

total increase by the end of the Plan of 38%, 2) € 4.7 billion of investment in the 2020-2024 period, up approximately € 700 million compared to the previous Plan, 3) NFP/EBITDA ratio in 2024 of 3x and NFP/RAB in 2024 of 0.7x and (iv) total dividends of € 860 million in the 2020-2024 period, up compared to the previous Plan, with a minimum DPS in 2021 of € 0.80.

Acea SpA Fitch Ratings confirms Acea's "BBB+" rating and "stable" outlook

On 14 January Fitch Ratings confirmed its Long-Term Issuer Default Rating (IDR) for Acea of "BBB+" with "Stable" outlook, and the Short-Term IDR of "F2". The Long-Term Senior Unsecured Rating of "BBB+" was also confirmed.

Confirmation of the rating reflects the focus of the Group's strategy on regulated business, strong operating performance and a good level of available liquidity. These factors offset the increase in debt linked to investment programmes in innovation and sustainability included in the 2020-2024 Business Plan.

Acea SpA successful completion of the first Green Bond placement for € 900 million

On 21 January, Acea SpA successfully completed placement of its first Green Bond issue for a total amount of € 900 million, in two series, in the context of the Green Financing Framework recently published and under the € 4 billion Euro Medium Term Notes (EMTN) programme (the "Bonds"), with the Base Prospectus as last updated on 24 July 2020 and subsequently amended on 15 January 2021. The first series totalled € 300 million, with a rate of 0% and maturity on 28 September 2025 (the "2025 Bonds") and the second series totalled € 600 million, with a rate of 0.25% and expiry on 28 July 2030 (the "2030 Bonds").

MAIN RISKS AND UNCERTAINTIES

Due to the nature of its business, the Group is potentially exposed to various types of risks, mainly from natural events, climatic changes and financial market risks (external risks) and operational and environmental risks specific to each business sector, Information Technology and Human Resources (internal risks). In order to manage these risks, analyses and monitoring are carried out by each company as part of a structured and coordinated process implemented at a Group level through the integration of two complementary approaches (Enterprise Risk Management and continuous risk management), aimed at assessing and treating the risks of the entire organisation in an integrated logic, consistent with its risk appetite, with the aim of providing management with the information needed to make the most appropriate decisions to achieve strategic and business objectives, to safeguard, grow and create value for the company.

This combination is designed to ensure effective control of the entire universe of main risks the Group is exposed to, guaranteeing management of the Group's overall exposure in line with the objectives of the Business Plan and Sustainability.

In order to contain these types of risks, the Group has implemented mitigation and monitoring as summarised below at both a corporate and business sector level.

For Risk Mitigation long ago the Acea Group introduced the development and adoption of a Group Insurance Plan based on the following pillars:

- Third Party Liability;
- Property Damage;
- Employee benefits.

More specifically, the first two pillars transfer the economic and/or asset risk deriving from civil liability – in all its general, professional, environmental and cyber forms – and from events (accidental, culpable or malicious) affecting the Group's physical and production assets.

The third pillar, on the other hand, aside from transferring economic and financial risk, implements a corporate welfare measure guaranteeing and paying the employees of the Acea Group significant financial support – both to those directly concerned and to those who may be entitled – in case of serious traumatic events related to both the professional and private spheres.

Still on the subject of risk mitigation, most of the companies of the Acea Group have adopted and maintain an Integrated Quality, Environment, Safety and Energy Management System (hereinafter the "System"), which complies with UNI ISO 9001:2015 (Quality), UNI ISO 14001:2015 (Environment), BS OHSAS 18001:2007/UNI ISO 45001:2018 (Safety) and UNI ISO 50001:2018 (Energy), certified by an accredited external body, as a tool for the prevention of accidents, diseases and pollution, as well as a measure to promote and support the efficiency and effectiveness of the company's processes, including energy processes, and to achieve continuous improvement in the performance of the System itself and work management.

Note that, on the date of preparation of the current Management Report, we do not expect to be exposed to further risks and uncertainties that may have a significant impact on the results of the Acea Group's operations, equity or financial position, other than those mentioned in this document.

COVID-19 HEALTH EMERGENCY

The international health emergency caused by Covid-19, commonly referred to as "Coronavirus", has evolved rapidly over the past few months. This has led the Italian government to put in place a series of provisions that are both restrictive and of an emergency economic nature, the duration of which it is still impossible to predict at this time, entailing a substantial change in both the internal and external context.

The Acea Group immediately implemented a series of actions to protect all stakeholders, adapting the policies from time to time as the situation evolved.

The main measures implemented during the period are shown below.

EMPLOYEES AND WORKERS

Safety during the Covid-19 pandemic

From the beginning of the February, the Acea Group implemented prevention and protection measures for management of the risk of Covid-19 infection.

For the activities carried out by Acea Group Companies, exposure to Coronavirus does not pose a professional risk as employees perform tasks that do not increase their risk compared to the rest of the population.

However, since working activity created the possibility of people coming into contact with others exposed to the virus, a protection strategy was immediately planned aimed at limiting the impact on the organisation based on a risk assessment.

The main measures implemented are as follows:

- dedicated training courses and information materials;
- internal circulars and guidelines for Group companies in order to ensure a coordinated response to the emergency;
- creation of dedicated communication channels for the emergency (intranet section, email address and multimedia signage);
- publication of the Protocol for Management of Covid-19 cases within the company – Communication Flows;
- revision of the Risk Assessment Document and the emergency plans for the Covid-19 health emergency;
- reorganisation of working activity;
- large-scale teleworking those who can work remotely;
- integrated management systems for visitor flows;
- screening initiatives for employees:
 - two blood-testing initiatives conducted in partnership with the staff of the Tor Vergata hospital;
 - use of molecular swabs and rapid antigen swaps in partnership with the Gemelli hospital and Paideia Clinic reserved for Acea personnel and their families;
 - flu vaccination initiative for employees and family members they live with;
- adoption of all measures for prevention and protection from infection:
 - specific health protocols drawn up by the company physicians;
 - installation of thermal scanners to measure body temperature at site entrances. The choice to use video cameras for measurement of body also represents a sustainable investment, as these systems can be reused once the emergency is over to strengthen existing security systems;

- intensification of cleaning shifts and sanitisation of working environments;
- installation of devices for the sanitisation of hands;
- measures for the protection of the personnel of contractors;
- provision of significant quantities of PPE in kits for personnel authorised to enter the company premises;
- review of layouts;
- availability at the Medical Centre of lateral flow test kits for qualitative identification of new Corona viruses in saliva samples, both for employees that request them and for employees subject to routine examinations;
- protection of personnel who are particularly fragile or with current or existing disease;
- specific measures for the management of all common areas and regulation of the use of environments in order to maintain social distancing;
- sanitising films to reduce bacterial load;
- integrated management of visitor flows also using mobile-app solutions;
- application of formal procedures for the periodic assessment of the effectiveness of the measures undertaken, through supervision of the actual implementation of anti-contagion measures (monitoring conduct).

During the initial stages of the emergency, Acea activated a special insurance policy valid for employees who tested positive for Covid-19. To provide even more support to its employees, safeguarding their health and the health of their loved ones, the insurance policy was also extended to members of the “family units” (spouses or partners and children as per civil status) of employees, understood here as applicable for all contractual types, and all Companies of the Acea Group.

Teleworking – keeping people connected, close, active

Acting responsively, being resilient, managing uncertainty and recognising opportunities: these are all characteristics included in the Acea Group Leadership Model.

The same traits that over the years have made it possible to promptly manage emergencies and crises that are not infrequent in our business, the Covid-19 emergency being only the latest addition to the list.

Since 2018, with the launch of the Smart People project, a new managerial and organisational mindset has been developed, and in the meantime most employees have been equipped with agile work tools and sharing platforms.

This has made it possible to respond positively to an unprecedented stress test of remote working forced by the current health emergency, enabling more than 85% of the company’s population to work from home.

The immediate implementation of teleworking was also made possible thanks to the rapid preparation of connectivity infrastructure and the completion of personal IT equipment by the Innovation, Technology & Solutions Function.

This has allowed the Acea Group to continue to work effectively on all business processes, including those related to the journey typical of people management: selection, welcoming, training, bonuses and development.

This critical moment has become a new opportunity to experiment with innovative ways of working, rethink work organisation, streamline processes, plan activities differently, identify new skills and roles in the company, activate training and development/self-development paths linked to new needs.

To deal with feelings of isolation, loss and difficulty in maintaining high levels of concentration and performance while dealing with critical circumstances and the need for social separation, efforts were made

to create a sense of community and sharing and the employees responded quickly, showing a sense of team, an ability to share objectives, full autonomy and a strong sense of responsibility.

Industrial Relations and Welfare

On 3 March an Advisory Committee was established consisting of the trade unions, RLS, RSPP and the company physician with the responsibility of providing advice on measures to combat and contain the spread of the Covid-19 virus in workplaces, in line with the provisions of the Protocol signed between the government and the trade unions.

- progression of activity aimed at preventing the spread of Coronavirus;
- any requests for additional information;
- new prevention and protection measures to be adopted.

Various Agreements were signed in 2020 with Trade Unions regarding measures to contain and combat Covid-19.

The agreements, confirming the suitability and efficacy of measures adopted in each case by the Group, introduce further organisational initiatives, including distance training, collective closures, use of individual entitlements, flex-time working, governance of teleworking during the emergency, with the aim, on the one hand, of avoiding the use of social shock absorbers in order to limit the economic and social impacts of Covid-19, and on the other of allowing continuation of working activity in safety and optimising organisational flexibility.

In the second half of 2020, the Joint Body (Companies and Labour Representatives) initiated dialogue aimed at analysing the processes regarding activities performed remotely, with the goal of improving this method of working in the period after the Covid-19 emergency. In line with the commitments made in the Group Framework Agreement of 14 February 2018, in on 30 July 2020, Acea established a new Agreement with Trade Unions regarding welfare for management of personnel turnover connected to retirement, the so-called “*Isopensione*” scheme, for the four-year period 2021-2024.

This pension bridging scheme is issued by INPS, with a contribution from the company, and is aimed at middle managers, white-collar workers and blue-collar workers who have the prerequisites to receive a standard or early-retirement pension in the four years following termination of their working relationship. The possibility to access the “*Isopensione*” scheme in 2021 is established at Company level based on the number of applications received in the time-frame defined by the Agreement, subject to an order of priority connected to conditions of health, proximity to pension access and professional category (middle managers and white-collar workers).

INVESTORS

In 2020, the health emergency led to a significant global financial and economic crisis. Stock exchanges all over the world initially saw strong declines, but then partially recovered losses thanks to monetary and fiscal measures taken by central banks and governments. In this context, the Green Deal and the Recovery Fund proposed by the European Commission, will allow the relaunch of investments that represent the key to economic recovery, prioritising environmental considerations and climate change.

Acea operates in sectors that are sustainable by nature and will be able to make the most of opportunities arising from an acceleration in investments in infrastructure and renewable energy, contributing to the country’s economic recovery.

Stock markets all over the world recorded sharp losses, above all in March and April, owing mainly to the effects of the lockdowns decided by the various countries to limit the pandemic.

The performance was positive overall for the US and Asian indices. The European stock markets went in the opposite direction and, with the exception of Frankfurt, recorded a negative trend. Acea showed performance substantially in line with the Italian market, recording a drop of 7%.

SHAREHOLDERS AND LENDERS

In view of the fact that the characteristics of the businesses managed by the Acea Group, 85% of whose EBITDA is generated by regulated activities, and in light of the chronology of events and news during the second half of 2020, the regulatory areas governing the Acea Group's businesses have not changed significantly due to the aforementioned health emergency.

However, cash inflows declined slightly in the short term, although it is hoped that equalisation mechanisms will be put in place to support the customer segments most exposed to the effects of the emergency.

With regard to the financial impact both in the short and medium term, there are no significant uncertainties for the Acea Group in dealing with the "coronavirus" emergency and the effects that this could reasonably cause, also because of the company's ability to continue to operate as a going concern thanks to the Group's solid financial structure.

CUSTOMERS AND THE MARKET

Environment Segment

The companies of the Environment Segment provide essential public services, and therefore are exempted from the suspension of production established by the Italian ministerial decrees issued over time to combat the epidemiological spread of Covid-19.

During the lockdown there was a temporary reduction in the SRF input at the San Vittore waste-to-energy plant resulting from the treatment of unseparated waste produced in the Rome area, given the substantial drop in tourism and commuting. However, Acea Ambiente has implemented measures to compensate for the effect, reserving additional and temporary space for the other contributors. In any case, things have currently returned to normal.

There have also been localised reductions of some special waste delivered to some liquid waste treatment platforms of the Segment due to the shutdown of manufacturers.

The other plants operated at substantially the same productivity levels as before the spread of the epidemic.

Specific regional ordinances have also identified the treatment plants of San Vittore del Lazio (UL3) and Orvieto (UL4) as facilities for the destination of unseparated waste produced by the infected or quarantined persons in their respective regions (Lazio and Umbria).

Almost all regions have issued ordinances halting separated collection for infected and quarantined persons, with impacts on the type and quantity of urban waste entering the Segment's facilities. Until 30 September 2020, amounts have not been very significant, therefore this has not generated significant effects beyond those indicated above.

Water Segment

Market context

Despite the need to stay at home or in any case to limit travel, water consumption has not changed and has remained almost constant due to the combined effect of the reduction in consumption of non-domestic users (industrial, commercial, etc.) and the increase in consumption of domestic users. In large cities there has been a reduction due to the blocking of tourism.

In compliance with the provisions of the regulations pertaining to the Covid-19 health emergency, as well as in compliance with the Resolutions of ARERA, the main preventive and precautionary measures taken by the IWS operators of the Acea Group to ensure continuity and availability of the service in conditions that are safe for the public and operators concerned entail, among other things:

- raising awareness of the use of alternatives to physical branches – web, apps, toll-free numbers, emails through which it is possible to carry out any type of activity – following closure and/or appointment-based access of physical branches in order to ensure social distancing;
- the suspension – from before the provisions of ARERA – of debt recovery activities, in particular service disconnections, as well as the opportunity for users in financial difficulty to request the deferment of the payment terms of expired or expiring bills;
- the division into instalments of bills due, issued, or with consumption dating to the emergency period.

Additional measures to protect users compatible with current regulatory legislation (Resolutions 580/2019/R/idr and 235/2020/R/idr) are being shared with the Area Governing Bodies of the territories served.

Areti SpA

The health emergency period and the subsequent lockdown imposed by the government inevitably affected national electricity needs, providing a measure of the impact of the epidemic on the real economy. The subsequent reopening of businesses mitigated the percentage value of the reduction in electricity demand.

Total electricity fed into the areti grid (from the national transmission grid, from generation plants connected directly to the areti grid and from the interconnected E-Distribution grid) decreased in 2020 by 8.85% compared to energy fed into the grid in the same period of the previous year.

The reduction in electricity consumption, combined with the sharp decline in gas and CO₂ prices, mainly driven by a slowdown in the world economy, also pushed down electricity prices.

With regard to the distribution of electricity around Rome, it should be noted that the legislative interventions related to the Covid-19 emergency, which have forced the closure of numerous commercial and industrial activities, have led to a significant reduction in the energy distributed through the grid managed by areti SpA, essentially in line with what is happening nationally.

With regard to measures to support the users of essential services, in line with the provisions of ARERA areti suspended disconnections of families and companies due to arrears in all the territories served. Consequently, any electricity service suspended, limited or deactivated after 10 March 2020 was switched on again.

With specific reference to electricity distribution companies, ARERA issued the following measures:

- Resolution **116/2020/R/com** and subsequent amendments and additions introduced a series of exceptions to the rules on non-fulfilment of contractual obligations pursuant to the Grid Code providing for the option for electricity vendors and distributors to pay, for the months April-July 2020, amounts less than those invoiced. Consequently, Resolution 248/2020/R/com defined the methods of reimbursement of the network expenses not paid by the traders, and the general system expenses not paid by the DSOs to the CSEA and the GSE;
- Resolution **190/2020/R/eel** provided for urgent actions to implement the Italian Relaunch Decree Law on the reduction of expenditures incurred by low-voltage electricity user accounts other than domestic users for the months of May, June and July 2020. The action regarded a reduction in the fixed components of the network tariffs and the general system ex-

penses for customers with committed power of more than 3 kW. The provision had an exclusively financial impact for distributors given that the constraint on revenue was guaranteed by the offsetting mechanism activated with Resolution **311/2020/R/eel**;

- Resolution **213/2020/R/eel** introduced a series of amendments to the current regulation on the installation of 2G smart metering systems for the year 2020 aimed at avoiding penalties for distribution companies for events arising from Covid-19. The main changes for 2020 concern the preparation of indicative detailed plans for the mass phase, the suspension of penalties envisaged in case of progress below the forecast set out in the Plan, and the suspension of application of the “Information Quality Incentive” matrix. These changes apply also to areti’s Plan, approved by the Authority with Resolution **293/2020/R/eel**.

In addition, with Measure **432/2020/R/com**, ARERA introduced a whole series of extraordinary changes on the subject of technical quality, resilience, testing of riser cables and automatic indemnities not disbursed by the distribution companies on commercial quality performance not achieved owing to force majeure.

With regard to energy production, Acea Produzione sells the energy produced by its plants on the wholesale markets, which are currently seeing prices more than 25% lower than the previous year. Some of these negative effects are mitigated by the lower purchase cost of commodity gas and CO₂ used in thermal power generation as well as by the presence in the portfolio of plants from incentivised renewable sources (these plants mainly have a regulated revenue structure and therefore only partly dependent on wholesale energy prices).

A further impact on Acea Produzione’s activities is the slowdown in certain investments caused by the suspension of the projects under way. Most of these activities were recovered in the course of the year. Only the continuation of the lockdown could lead to the rescheduling of certain investments to next year.

Commercial and Trading Department

In addition to applying the provisions established by the Group, using a poster in the building di piazzale Ostiense and the Ostia branches open to the public Acea Energia has widely disseminated informative materials such as the guide of the Ministry of Health, the correct procedure for washing hands and the provisions relating to social separation. Hand sanitising gel distributors were installed in these same spaces.

As the main preventive measure, from 10 March the employers decided to implement mass use of teleworking for Acea Energia personnel who could work remotely and for employees at the Ostia branch, closed on that same date. The staff of the Ostiense branch were equipped with adequate protective devices until the closure to the public on 16 March, the employees then shifting to teleworking.

Due to the Covid-19 epidemiological emergency, the piazzale Ostiense branch was closed from 18 March to 1 June. The reopening was preceded by the preparation of the branch’s spaces, including the affixing of horizontal and vertical signs to channel flows and maintain distance between customers both outside and inside the branch and between customers and personnel. To this end, the use of the desks inside the branch has been discontinued and the number of active counters has been reduced in order to manage the internal/external spaces of the branch and behind counters, guaranteeing the safety of Acea Energia customers and operators. Furthermore, the entrance of customers into the branch is managed, a body-temperature measuring point is present at the branch

entrance, it is mandatory to sanitise hands and wear a face mask, and a telephone reservation service has been put in place with a dedicated toll-free number. The reopening of the Ostia branch has been postponed until a later date. From 9 November, access to the piazzale Ostiense branch is possible on appointment only.

Since the onset of the epidemic, customers have been advised of the possibility of managing their accounts via telephone, chat systems, customer areas in the websites and apps on smartphones. Similar information has been published on the websites www.acea.it (Free Market), www.servizioelettricoroma.it (standard-offer market) and on the social networks of the Free Market (Acea Energia Facebook page), with the tagline “We remain close to you, even from afar” and the hashtag #iorestoacasa (#imstayinghome).

Emails were also sent to customers in the open and standard markets to encourage the use of the customer area on the website.

Acea Energia has used the surveys carried out regarding customer conduct during the lockdown to verify the effectiveness of these tools and the further development of virtual channels and services.

The contact centre is always remained active, and for the entire duration of the lockdown it has guaranteed qualitative and quantitative alignment with the service offered before the health emergency.

Furthermore, in compliance with the legal provisions for the prevention of the spread of Covid-19, throughout the lockdown Acea Energia suspended door-to-door sales and closed the Acea Shops. These activities were restarted in May with the beginning of Phase 2. The toll-free number 800.130.333 for commercial offers has remained active throughout, and telemarketing continued even during the lockdown.

All customer management back office activities, including the response to written requests for information and complaints, are guaranteed by teleworking staff.

The period during which the branches were closed allowed those employees to be deployed to back office services, further improving service performance.

In compliance with the provisions of ARERA, Acea Energia has blocked disconnections due to the late payment of electricity and gas bills for the period of the maximum emergency. The Company has also voluntarily taken extraordinary measures with respect to its customers throughout the country both in relation to payments and to ensure the management of commercial or care requests, reinforcing the back office units in the operations area. More specifically, all debt collections were halted along with the stoppage of suspensions due to arrears, and exceptional instalment payments were introduced during the emergency period.

Always in compliance with the provisions of ARERA, credit collection was restarted in July, maintaining the utmost attention to situations of fragility caused by the health emergency.

The overall impacts of the emergency on the sector are being assessed by all stakeholders in the electricity and gas supply chain, starting with ARERA. Of particular relevance are the effects of the lockdown on the consumption of the business segment (both for large and industrial customers and for small and micro customers, such as professional firms and commercial activities).

LOCAL COMMUNITY

Sustainable Development Goals (SDGs)

The Covid-19 pandemic that spread worldwide in the first months of the year, affecting every consolidated structure of human existence starting with the protection of health and the exercise of normal social dynamics, has underscored the major critical issues of an unsustainable development model. Important insights into the cause and effect relationships between social, economic, environmental and infrastructural aspects of the pandemic have been ini-

tiated and are ongoing to date, but there seems to be a shared view that a better approach to sustainability could and will reduce and mitigate the negative effects of other similar events in the future. Responses to the emergency by institutions, businesses and civil society were aimed at safeguarding life and health, ensuring, as far as possible, the continuity of personal activities and mitigating the social repercussions of the inevitable negative impacts caused by the lockdown.

In this situation of crisis and uncertainty, utilities demonstrated their resilience, maintaining ordinary operating conditions in the performance and provision of public utility services that allowed hard-hit communities to enjoy a certain level of safety and normality. Numerous initiatives were put in place to protect the broad audience of stakeholders, from company personnel to users and local communities.

Today, having made it through the toughest moment for the country, we start a new phase of reprogramming a new context and a new development model where the pursuit of sustainability objectives remains a central focus. All public institutions, from the European Union to the Italian government, have moved in this direction. The confirmation of the Green Deal and sustainability objectives by the Commission is evidenced by the political programmes and financial instruments currently being defined, aimed at allowing a recovery that is not only a resumption of previous conditions but a leap forward, a transformational resilience.

The Acea Group is facing this moment fully aligned with these perspectives. It managed the emergency phase with the utmost care for the protection of its stakeholders and is planning to return to a new normal, drawing on the experience and steadfastly confirming its choice of a sustainable and socially responsible management model.

Local initiatives

Throughout the health emergency, Acea helped local authorities that worked on the front lines by offering technical and financial support. In fact, the Committee responsible for Sponsorships and Donations has approved a series of appropriations for the structures included in the Covid-19 network, including:

- Agostino Gemelli Hospital in Rome: contribution for the preparation of a new department in the Columbus clinic;
- San Pio Hospital in Benevento: contribution to the purchase of instruments for intensive care at the only city hub receiving patients suffering seriously from Covid-19;
- Salvo D'Acquisto barracks in Rome: free supply of electricity to supply the mobile hospital set up by the Palidoro Mobile and Specialised Carabinieri Unit Command;
- INMI Lazzaro Spallanzani of Rome: donation following the internal fundraising promoted by Acea that involved employees and the CRA;
- Istituto Dermopatico dell'Immacolata (IDI) in Rome: financial contribution for the preparation of a new intensive care department.

Furthermore, a contribution was made to the Community of Sant'Egidio in Rome for the urgent purchase of food and sanitary equipment (sanitising gels, detergents, masks) to be distributed to the homeless and the less well-off.

During the period of greatest need, electricity was supplied free of charge to the mobile hospital set up by the Rome Palidoro Mobile and Specialised Carabinieri Unit Command.

Even in the months following the lockdown, prevention and protection remained the primary focus, especially with respect to the most vulnerable members of the population. To this end, contributions have been made to:

- the Italian Multiple Sclerosis Association for the procure-

ment of medical equipment (FPP2 and FPP3 masks, disinfectant gel, single-use gowns and gloves, thermoscanners) essential for the safe continuity of services offered by Rehabilitation Centres;

- the Italian Red Cross – Rome V section, which with its volunteers offers, among other things, the service of shopping and delivering medicines at home to the elderly and fragile, as well as distributing food to the most needy families as identified by the Municipality of Rome.

At the same time, with the relaxation of the most restrictive measures, Sponsorships have resumed in support of sporting and cultural events that take place outdoors and with strict procedures in compliance with current legislation, allowing the public to engage in social events after a long period of isolation and offering the Acea Group a chance to help revive the territory it operates in.

INSTITUTIONS

Granting the requests received from the major institutions – the Presidency of the Republic, the Presidency of the Council of Ministers, the Constitutional Court and the Capitol – wanting to send a strong signal to Italians and to express a sign of solidarity and hope in this difficult and dramatic period, the Acea Group illuminated their respective institutional buildings with the Italian colours.

THE SUPPLY CHAIN

Considering the impact of the ongoing health emergency on the economy and the restrictive measures adopted by the Italian government to contain the contagion, given the need to ensure the continuity of supplies the Acea Group has carried out an analysis of the supply market, with particular reference to strategic suppliers/contractors that may be in a situation of contingent difficulty in order to adopt any necessary corrective/preventive actions.

Still today, no guarantees are required to accompany the offers and the obligation of a preliminary inspection for the submission of a bid has been abolished.

COMPETITIVE-REGULATORY RISKS

Regulatory evolution risk

As is well known, the Acea Group operates mainly in regulated markets and the requirements and obligations that characterise them (as well as changes in the rules of operation of these markets) can significantly affect the results and performance of operations. In particular, several Group companies manage the Integrated Water Service in their respective Territorial Areas, which is known to be a sector receiving an increasing level of attention from lawmakers and the Sector Authority (Regulatory Authority for Energy Networks and Environment – ARERA). The Group is therefore exposed to the evolution of the relevant legal/regulatory frameworks in the areas served.

In this regard, it should be noted that following the extension of ARERA's regulatory and control powers to waste management, Companies in the Environment Segment are also exposed to potential risks arising from changes in the regulatory framework.

These risks are mitigated by careful monitoring of regulatory developments, interacting with the relevant bodies and participating in association and institutional meetings carried out by the competent business structures in synergy with the Group's organisational structures. These structures monitor regulatory developments in

terms of providing support in the preparation of comments in the response to the Consultation Paper, in line with the interests of Group companies, and guidance for the consistent application of regulations in corporate procedures and within the electricity, gas, water and environment businesses.

Political, social and macroeconomic context risk

In providing services to its customers, the Acea Group is very attentive to the expectations and choices of its institutional, regional and central counterparts. On the other hand, most of its activities are in any case sensitive to the economic and structural dynamics experienced by the economic and productive fabric of the respective regions.

In this sense, the main factors influencing the Group's performance include changes in the political, social and macroeconomic context of reference. These uncertainties can have an impact on the achievement of economic/financial objectives and investments, as well as on the implementation of major works, whose timing can be influenced by changes in government structures at both a central and local level.

With regard to the development initiatives envisaged in the Business Plan in the Environment Segment (growth through M&A and construction of greenfield plants), there is a risk deriving from the failure of the competent authorities to issue permits.

The Group has historically focused on guaranteeing levels of excellence in the technical and commercial quality of the services provided, including through dialogue models that are increasingly attentive to the needs expressed by its stakeholders in order to put in place virtuous dynamics in relations with its customers, also with regard to payment habits. In this regard, it should be noted that the Group is also subject to the risk of deterioration of its credit positions, particularly in connection with the provision of the Integrated Water Service, with consequences on the exposure of working capital. This risk is managed proactively by the relevant structures of the individual companies, applying specific Group Credit Policies and with the support of the Parent Company's relevant organisational structures.

NATURAL RISKS

Some of the risk that the Group must deal with includes possible impacts deriving from unpredictable natural phenomena (e.g. earthquakes, floods and landslides) and/or from cyclical or permanent climatic changes on the networks and plants managed by Acea Group companies. The first types of risks are addressed through the implementation of structured tools for the governance of assets, specific to each business area (e.g. Water Safety Plan within the IWS; constant monitoring of the reservoirs, also carried out in collaboration with the competent Ministry, in the field of dam management), as well as with projects, some of national scope, aimed at increasing the resilience of the infrastructure in the various regions (e.g. the project to double the Peschiera-Le Capore aqueduct). The residual portion of risks from natural events is covered by the Group's insurance programme mentioned on the previous pages.

For many years now, the Acea Group has been demonstrating its solid commitment to tackling and mitigating the risks related to climate change, not only through the reporting included in its Sustainability Report, but also by disseminating its strategies and illustrating the actions taken and the initiatives organised through participation in the Carbon Disclosure Project (CDP), confirming its score of A- and inclusion in the Leadership category.

This important result has further stimulated the Acea Group to progressively align with the recommendations of the Task Force on

Climate-related Financial Disclosures (TCFD), not only in its metrics and targets, but also in its governance and risk and opportunity management, as a useful tool for improving its strategy for mitigating and adapting to future scenarios.

In fact, for the Acea Group, due to the nature and location of its business lines, the main issues related to climate change could arise in operational, regulatory and legal areas, with potential effects also on finances. As far as the first aspect is concerned, chronic meteorological events like the reduction of rainfall can have negative impacts on both hydroelectric energy production and the reduction of the availability of drinking water to be distributed, with among other things an increase in energy consumption for the withdrawal of water from less favoured sources. On the other hand, extreme phenomena such as storms can lead to the risk of lightning strikes, blackouts or, for the water network, overflow of drains connected to the wastewater systems and turbidity of the water sources. Moreover, from a regulatory and legal point of view, these climatic effects can have an impact on the consequent provision of the service in accordance with the regulations in force, with consequent financial penalties. The implications of regulatory actions on CO₂ emission allowances, renewable sources, taxes and energy efficiency certificates could be very significant, with possible financial impacts.

OPERATIONAL RISKS

Regulatory compliance risk

The nature of the business exposes the Acea Group to the risk of non-compliance with consumer/protection regulations pursuant to Italian Legislative Decree no. 206/2005, i.e. the risk mainly connected to the commission of consumer offences/unfair commercial practices or misleading advertising (through activities like omission of relevant information, dissemination of untrue information/forms of undue influence, unfair terms in commercial relations with consumers), as well as the risk of non-compliance with regulations for the protection of competition, i.e. the risk associated mainly with the prohibition of companies to establish restrictive agreements and to abuse their dominant position in the market (through activities such as market allocation, manipulation of tender procedures, restrictive agreements and other types of anti-competitive agreements, exchange of commercial/competitive information that potentially constitutes the creation of a cartel).

Acea adopted a specific Antitrust Compliance Programme and appointed a Holding Antitrust Officer. The main objective of the programme is to strengthen internal controls aimed at preventing the violation of regulations through the implementation of regulatory and organisational instruments, as well as through a more widespread dissemination of the culture of respect for the principles of fair competition and consumer rights. The main Group companies adopted the Antitrust Compliance Programme in line with the indications of the Holding Company, and set up organisational structures in which Company Antitrust Officers were appointed, given the task of managing the activities to adapt the Programme to the individual companies and supervise its implementation and maintenance.

Regulatory risks also include all non-conformities, with particular regard to the environmental impact of Acea Group (generated for example by the activities of production and / or treatment of urban waste and waste, and of health and safety at work, mitigated through the adoption of certified management systems, respectively UNI EN ISO 14001: 2015 and BS OHSAS 18001: 2007), which may result in the application of administrative and/or criminal penalties, including those of a disqualifying nature.

Following the introduction of some crimes that expand the catalogue of predicate offences capable of triggering the responsibility

of the Bodies pursuant to Italian Legislative Decree no. 231/2001, the Acea Group has started the progressive updating of the companies' respective organisational models, starting with that of Acea SpA, approved by the Board of Directors on 22/01/2020. In addition, preparations have begun for updating the Model for the law converting Italian Decree Law no. 124/2019 of 17 December 2019 that came into force on 25 December 2019, which introduced some tax crimes among the predicate offences in Italian Legislative Decree no. 231/2001, and Italian Legislative Decree no. 75 of 14 July 2020 adopting the "PIF Directive".

As part of the general Group Whistleblowing Procedure aimed at regulating the system with which anyone can make voluntary and discreet whistleblowing reports, guaranteeing the confidentiality of the identity of the whistleblower and thus protecting him/her from any retaliation, the rules governing Whistleblowing relating to unlawful conduct have been updated, also pursuant to Italian Legislative Decree 231 of 2001 and/or violations of the 231 Model, expanding the possible channels of communication to include a specific IT platform, accessible by everyone (employees, third parties, etc.) on the website of each Group Company, and by employees of the Italian Companies of the Group having access to the company's Intranet.

It should be noted that some consolidated companies (*areti*, Acea Ato 2, Acea Elabiori and Acea Ambiente), as more fully illustrated in the relative Financial Statements, are subject to investigations or proceedings that relate to significant cases pursuant to Italian Legislative Decree no. 231/2001 concerning safety and/or the environment. There are also complaints for corporate offences relating only to Acea Ato 5, relative to investigations and proceedings for significant cases pursuant to Italian Legislative Decree 231/2001 concerning the environment and corporate crimes. In particular, with regard to corporate offences, case 2031/16 relates to financial years 2015, 2016 and 2017 and alleges that the crimes of accounting fraud and filing fraudulent Financial Statements were committed by the Chairpersons of the Company and the representatives of the supervisory body of this company. During 2020, notification was received that the preliminary investigations had been completed, pursuant to art. 415-bis.

On the basis of the information currently available, taking into account the operational autonomy of the companies with respect to the Parent Company Acea, any responsibilities that may be ascertained upon the final outcome of the aforementioned proceedings are exclusively attributable to the companies themselves, without any repercussions on the Parent Company or other companies of the Group that are not involved.

Finally, other additional regulatory risks that may potentially be of particular relevance for the Acea Group include those arising from the Privacy Regulation (EU) 2016/679 GDPR.

The Acea Group's compliance programme has made it possible to define and implement a Privacy Governance Model that is valid for the Group, taking the Parent Company as a privileged area of observation in its role as the linchpin of the system and supplier of services and/or centralised activities, looking at the Companies with a logic of priority at the core processes of each business area. The online training programme offered using an e-learning platform that was successfully implemented in the previous period for the Parent Company has been extended to the Companies to provide a first layer of compliance with the obligation for Data Controllers to instruct data processing personnel, providing them with training on individual corporate processes as well as a particular focus on cross-cutting procedures (HR, Legal, etc.).

Corporate working groups have been set up to customise the Group Model in the individual companies, with effects on the implementation and/or fine-tuning of processes having a high impact on privacy, and initiatives have also been carried out to test compli-

ance solutions already adopted.

In 2020, the servers of a mail distribution supplier used by some Group companies was affected by a Data Breach, also reported to the Data Protection Authority. No findings arose from the extensive investigations that indicate the event involved a breach of personal data that could generate significant negative effects for individuals, causing physical, material or non-material damage. In any case, the Companies involved took prompt action in accordance with the procedures applied within the Group, implementing safeguards with the support of the DPO. Furthermore, specific lesson-learned actions were adopted in order to consolidate control over processing, strengthening the connected protection measures.

Commercial and Trading Segment

With regard to the Commercial and Trading Segment, the main operational risks associated with Acea Energia's activities in the deregulated electric power and natural gas markets are the connected to the risk of possible progressive concentration of operators in these markets, with an impact on the Company's customer base growth plans and its positioning.

Regarding the Electricity Service for the standard-offer market, there is risk connected to development of the relevant regulatory framework, which has a significant impact on the growth of Acea Energia's customer base, due to the disadvantage of the company compared to other operators, as the mix of the Company's power customers, compared to that of its primary competitors, is unbalanced in favour of the Electricity Service for the standard-offer market. This situation carries the risk of Acea Energia being penalised due to: 1) the inability to perform and commercial activity with regard to customer of the standard-offer market; 2) being conditioned by tariffs regulated by revenues and margins of the Electricity Service for the standard market; 3) exposure of a significant portion of its customer base to the impacts of policies that were adopted with a view to moving away from the Electricity Service for the standard market from 1 January 2022.

In the context of Acea Energia's operating activities that, as a commercial company it represents the single point of contact for end customers both for the electricity and gas Free Market and for the Electricity Service for the standard-offer market, there is risk linked to the possibility of inadequate levels of performance on the part of Distributors regarding: 1) identification and prompt communication of measures (with impacts on estimate-based invoicing and limitation); 2) actions to suspend supply to active customers with arrears (with impacts on credit collection activity); 3) activities within their remit for satisfaction of commercial requests of customers (with impacts on customer care and complaints).

In order to ensure the success of the development initiatives envisaged in the Business Plan, the Segment companies have launched change management projects, mitigating the risks associated with the non-involvement of all personnel (staff and line personnel, managers and others).

Acea Energia also has typical business risks deriving from an efficient and effective management of billing and credit collection procedures, where it is affected by the sub-optimal performance of electricity and gas distributors.

Information about commodity price risk and the control tools adopted is provided in the financial risks section.

Networks Area

Potential sources of risk referable to the distribution of electricity in the Municipalities of Rome and Formello derive from the implementation of the development plans of the 2019-2022 Business Plan (fibre optics project, 2G smart metering project, resilience plan of the distribution network) and the monitoring of information security and systems.

With regard to plant safety, the Companies operate by implement-

ing protocols, procedures and controls in accordance with the provisions of current regulations and in full collaboration with the relevant Authorities and Institutions.

With regard to the continuity of service, in addition to the aforementioned development plans, areti has implemented specific initiatives relating to the Public Lighting service provided in the Municipality of Rome, such as plans to modernise and reclaim the network.

In general, the main risks falling within this business segment can be classified as follows:

- risks relating to the effectiveness of the **investments** for the replacement/renewal of grids, in terms of expected effects on the improvement of service continuity indicators;
- risks relating to the **quality**, reliability and duration of works;
- risks relating to the ability to **meet deadlines** for obtaining prescribed authorisations, regarding both the construction and start-up of plants (pursuant to Lazio Regional Law 42/90 and related regulations) and performing work (authorisations of Municipalities and other similar authorisations), according to the need to develop and enhance the plants.

The risk relating to the **effectiveness of investments** basically stems from the increasingly stringent ARERA service continuity regulations. To deal with this risk, areti has strengthened the tools for analysing network performance in order to make increasingly better use of capital expenditure and applied new technologies (automation of medium voltage network, smart grids, etc.).

As far as the risk linked to **work quality** is concerned, areti has implemented operational, technical and quality control systems. The results of the inspections, which are processed electronically and statistically analysed, give rise to rankings (reputational indicators) and a “vendor rating” system, developed in collaboration with the University of Tor Vergata (Rome). This system ranks contractors according to their reputation, scored on the basis of their ability to meet the quality and safety standards for worksites.

The good level in the reputation indicator was confirmed for companies that worked for areti.

The risk relating to the ability to **meet deadlines** arises from the number of entities that have to be addressed in the authorisation procedures and from the considerable uncertainty linked to the response times of these entities; the risk lies in the possibility of refusals and/or in the technical conditions set by the above entities (such as the construction of underground rather than above-ground plants, with a subsequent increase in plant and operating costs).

It should also be noted that lengthy proceedings result in higher operating costs, are difficult to deal with for operating structures (drafting and presentation of in-depth project examinations, environmental studies, etc.) and require participation in service conferences with technical meetings at the competent offices. However, the substantial risk is still essentially linked to the failure to obtain authorisations, with the result being the inability to upgrade plants and the subsequent greater risk linked to the technical performance of the service. Note that a particularly critical point is the long response times of a number of the administrations contacted.

Finally, areti has adequately mitigated the risk to “typical” business areas like the integrity of its assets, adequate health and safety at work and its exposure to counterparties such as key suppliers and significant debtors and end customers for the technical services rendered.

Potential sources of risk related to the electricity production sector derive from fluctuations in the energy markets within the broader macroeconomic context, from regulatory developments – in particular with regard to the awarding of hydroelectric concessions – and from the risks related to the business continuity of operations, with possible consequences in terms of non-production of the plants.

For the management of operational risks, Acea Produzione has

taken steps from the beginning to implement a series of computer and physical security measures for the plants, together with a system for measuring and monitoring benchmarks each day and based on events, the results of which constitute input to the management process of the maintenance and revamping programmes for plants and machinery. The company also participates in the aforementioned Group Insurance Plan, stipulating policies with leading insurance companies to cover any damage. The company places particular importance on training to update its employees, and at the same time on definition of new internal organisational procedures that describe the company activities and procedures of production sites/units, indicating how the relevant responsibilities are assigned, methods for performance of recurring maintenance works, combining technical specifications for operations with safety measures to adopt in performance of activities. This activity is also carried out through voluntary adoption of a Health and Safety Management System in company workplaces pursuant to standard UNI ISO 45001:2018 certified by an accredited external body.

Production

Potential sources of risk related to the electricity production sector derive from fluctuations in the energy markets within the broader macroeconomic context, from regulatory developments – in particular with regard to the award of hydroelectric concessions – and from the risks related to the business continuity of operations, with possible consequences in terms of non-production of the plants, as well as from the implementation of the development plans of the 2020-2024 Business Plan (growth in the photovoltaic sector through M&A and the construction of plants).

For the management of operational risks, Acea Produzione has taken steps from the beginning to implement a series of computer and physical security measures for the plants, together with a system for measuring and monitoring benchmarks each day and based on events, the results of which constitute input to the management process of the maintenance and revamping programmes for plants and machinery. The company also participates in the aforementioned Group Insurance Plan, stipulating policies with leading insurance companies to cover any damage.

Environment Segment

Waste treatment plants are characterised by a high level of technical complexity, which requires the management by qualified personnel and organisational structures with a high level of expertise. These and their activities are defined based on the specific characteristics of the waste. The failure of incoming material to meet the necessary specifications could lead to concrete operational problems, sufficient to compromise the operational continuity of the plants and give rise to risks of a legal nature. For this reason, specific procedures have been adopted for monitoring and controlling incoming materials via spot checks and the analysis of samples pursuant to legislation in force.

The risk of waste produced not being delivered downstream in the value chain is particularly significant and has an impact on business continuity. Acea Ambiente uses tendering procedures to stimulate the opening of the market. Furthermore, the Segment Companies implement programmes, procedures and controls to ensure adequate HSE compliance monitoring by virtue of the very characteristics of the business managed (CO₂ emissions, exceeding exhaust emission limits, health and safety at work, non-compliance of incoming waste, etc.).

All plants in the Segment were involved in optimisation and revamping projects that present the risks typically related to the construction of complex industrial infrastructure (construction and performance defects). Specifically, the plants of Orvieto, Monterotondo Marittimo and Aprilia were affected by significant recent works for expansion and redevelopment.

With regard to the management phase, the possible discontinuity of the waste-to-energy activities carried out in the Terni and San Vittore del Lazio plants and the waste treatment activities carried out by the other plants, if connected to the subsidised production of electricity and the performance of services of public importance, could lead to limited (and in certain cases significant) negative effects.

This, both from an economic point of view and with respect to responsibility towards public and private suppliers. In this context, therefore, where not planned, a plant shutdown creates a concrete risk of failure to achieve the objectives of the industrial activity.

The waste-to-energy plants, as well as all other waste treatment plants to a lesser extent, are characterised by a high level of technical complexity, which requires the management of qualified resources and organisational structures with a high level of know-how. Therefore, there are specific risks with regard to the continuity of technical performance of the plants, as well as connected to the possible exodus of professional skills (not easily available on the market) having specific managerial skills in this area.

These risks have been mitigated by implementing specific maintenance and management programmes and protocols, drawn up partly on the basis of the experience acquired in plant management.

Moreover, the plants and the related activities are designed to handle certain types of waste. The failure of incoming material to meet the necessary specifications could lead to concrete operational problems, sufficient to compromise the operational continuity of the plants and give rise to risks of a legal nature.

For this reason, specific procedures have been adopted for monitoring and controlling incoming materials via spot checks and the analysis of samples pursuant to legislation in force, and appropriate Environmental and Occupational Health and Safety Management Systems have been adopted and continually monitored by all companies in the Segment.

MARKET RISK

The Group is exposed to various market risks with particular reference to the risk of price/volume oscillations for commodities being bought and sold, interest rate risks and foreign exchange risks to a lesser extent. To reduce exposure to within the defined limits, the Group enters into contracts drawn up on the basis of the typologies offered by the market.

The **Market Risk** is the risk concerning the unexpected effects on the value of the portfolio of assets due to changes to the market conditions.

Commodity Risk

In this context, reference is made to the Price Risk and Volume Risk cases as defined:

- **Price Risk:** risk linked to the change in commodities prices due to the difference in the price indices for purchases and sales of Electricity, Natural Gas and EUA Environmental Certificates;
- **Volume Risk:** the risk linked to changes in the volumes effectively consumed by clients compared to the volumes envisaged in the sales contracts (sale profile) or, in general, the balancing of positions in the portfolios.

Through the activities carried out by the Commodity Risk Control Unit of the Finance Unit within the Administration, Finance and Control department, Acea SpA ensures the analysis and measurement of exposure to market risks, interacting with the Energy Management Unit of Acea EnergiaSpA, verifying compliance with the limits and criteria adopted by the General Risk Management of the Commercial and Trading Sector and by the Administration, Fi-

nance and Control Department in line with the Acea SpA's "Guidelines for the Internal Control and Risk Management System" and the specific procedures. The analysis and management of risks is carried out according to a second-level control process that involves the execution of activities throughout the year with different frequency by type of limit (annual, monthly and daily), carried out by the Commodity Risk Control Unit and by risk owners.

Specifically:

- every year, the measures of the risk indicators, i.e. the limits in force, must be reviewed and respected in the management of the risks;
- every day, the Commodity Risk Control Unit is responsible for verifying the exposure to market risks of the companies in the Commercial and Trading Industrial Segment and for verifying compliance with the defined limits.

The reports are sent to the Top Management on a daily and monthly basis. When requested by the Internal Control System, Commodity Risk Control prepares the information requested and available to the system in the format appropriate to the procedures in force and sends it to Acea SpA's Internal Audit Unit.

The risk limits of the Commercial and Trading Sector are defined in such a way as to:

- minimise the overall risk of the entire segment;
- guarantee the necessary operating flexibility in the provisioning of commodities and hedging;
- reduce the possibility of over-hedging deriving from the variation in expected volumes for the definition of hedges.

The management and mitigation of commodity risk are functional to achieving the economic and financial objectives of Acea Group, as indicated in the budget, in particular:

- to protect the primary margin against unforeseen and unfavourable short-term shocks in the energy market which affect revenues or costs;
- to identify, measure manage and represent exposure to risks;
- to reduce risks through the preparation and application of adequate internal controls, procedures, information systems and expertise.

Forward contracts (for physical transactions for the purchase and sale of commodities) are stipulated to meet the expected requirements deriving from the contracts in the portfolio or for transactions not involving sales to end customers.

The risk hedging strategy adopted by the Commercial and Trading Industrial Area also aims to minimise the risk associated with the volatility of the Income Statement deriving from the variability of market prices and ensure correct application of the Hedge Accounting (in accordance with current International Accounting Standards) to all derivative financial instruments used for such purpose.

As regards the commitments undertaken by the Acea Group to stabilise the cash flow from purchases and sales of electricity, it should be noted that all of the ongoing hedging operations are recorded in the accounts using the flow hedge method, as far as the effectiveness of hedging can be demonstrated. The financial instruments used are of the swap and contracts for difference (CFD) type, or other instruments aimed at hedging commodity price risk. The evaluation of risk exposure involves the following activities:

- recording of all transactions involving physical quantities carried out in special books (known as Commodity Books) differentiated according to the purpose of the activity (Sourcing on wholesale markets, Portfolio Management, Sale to end customers within and outside the Acea Group) and commodities (e.g., Electricity, Gas and EUA);
- daily checks on observance of limits applicable to the various Commodity Books.

The activity performed by the Commodity Risk Control Unit provides for daily codified checks at “event” on compliance with risk procedures and limits (also for purposes of compliance with Law 262/05) and reports to the Top Management any discrepancies detected during the phases of checks, so that measures can be adopted to be within the established limits.

Interest rate risk

The Acea Group’s approach to managing interest rate risk, which takes the structure of assets and the stability of the Acea Group’s cash flows into account, has essentially been targeted, up to now, at hedging funding costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

The Acea Group’s approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.

In particular, for static management (to be opposed to the dynamic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term.

Acea has, up to now, opted to minimise interest rate risk by choosing a mixed range of fixed and floating rate funding instruments.

As it is known, fixed rate funding protects a borrower from cash flow risk in that it stabilises the financial outflows in the Income Statement, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.

Foreign exchange risk

The Group is not particularly exposed to this type of risk, which is concentrated in the conversion of the Financial Statements of its overseas subsidiaries.

As regards the 20 billion Yen Private Placement, the exchange rate risk is hedged through a cross currency swap described in the section on interest rate risk.

Information Technology risks

For years now Acea has followed a development path focused on the use of new technologies as a driving force for the operational efficiency, safety and resilience of its industrial assets. The main business processes are now all supported by the use of advanced information systems, implemented and managed by the Group’s centralised departments to support the operations of the various companies. In this sense, the Group is therefore exposed to the risks of the adequacy of the IT infrastructure to the current or future needs of the various businesses, as well as to the risks of unauthorised access to the data processed using IT procedures, with or without intent, and in any case inappropriate or not in compliance with current regulations. Acea manages these risks with the utmost attention through specific corporate compliance structures coordinated by specialised Group safeguards.

As far as cyber security of systems, infrastructure, networks and other electronic devices is concerned within the scope of the services provided or the respective Group Companies, the current procedural and technological safeguards of the Companies themselves are implementing all the necessary actions to align their cyber security posture with the main national and international industry standards in order to increase their resilience to risks of this nature, possible repercussions in terms of business interruption and regulatory non-compliance. Technological and organisational measures are being implemented with the aim of:

- managing the threats to the organisation’s network infrastructure and information systems in order to ensure a level of security appropriate to the existing risk;

- preventing accidents and minimising their impact on the security of the network and information systems used to provide services, so as to ensure their continuity.

Liquidity risk

The Group policy for managing liquidity risk, for both Acea and its subsidiaries, involves the adoption of a financial structure which, coherent with business objectives and within the limits defined by the Board of Directors, guarantees a suitable liquidity level that can meet short/medium-term financial requirements, while maintaining an appropriate balance between maturity and composition of debt, also taking into account the challenging objectives set out in the Business Plan in terms of developing new M&A initiatives. The various elements of uncertainty faced by the Group include the potential economic, financial and reputational impacts associated with the closing of or failure to close the aforementioned transactions. The Acea Group has therefore adopted an articulated and structured assessment process for these risks, carried out in close coordination between the companies and the Parent Company’s organisational controls of the individual types of risk.

The liquidity risk management process, which uses financial planning tools for outflows and receipts implemented at the level of the individual companies under the coordination of specific Group oversight, aimed at optimising the management of treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract.

Credit risks

In 2019 Acea issued the new guidelines of the credit policy to make it consistent with the ongoing organisational changes and the Credit Risk Profiling project, with which different credit management strategies have been identified. The “Scoring and customer credit limit” procedure for non-regulated markets was also issued. The Credit Check system, which has been operating in unregulated markets for several years and with which all new mass market and small business customers are checked through customised scorecards, was integrated with the CRM in 2018.

Project work on Credit Risk Profiling (three-year period 2019-2021), the operational scope of which was recently redefined and broadened, has been fully launched and has the macro objectives of optimisation of the acquisition process, models and tools for managing Large Business customers, the activation of information platforms to support sales and the development of an advanced monitoring dashboard, which was released into production in June 2020. The assessment of Large Business customers continues to be managed through an approval workflow with decision-making bodies consistent with the level of exposure expected from the supply.

The dynamic management of recovery strategies is carried out in the billing system for active customers and through a dedicated management system for those discontinued. There has also been a full review of the credit management process both in terms of the application map and the standardisation of activities for all Group companies, with the definition of a new Collection Strategy, fully integrated into the systems. This guides dunning activities both in terms of customer type (public and private) and behaviour of individual customers (score).

The structures of each company responsible for managing credit report functionally to the Acea Corporate Credit Unit that guarantees end-to-end supervision of the entire process.

The mass management of active and inactive receivables of a limited amount was carried out by the operating companies, leaving to the holding company the activity of disposing of non-performing receivables through disposal operations, as well as the management of inactive customers with significant amounts due.

As a result of these interventions, in recent years the Group significantly improved its collections capacity both in terms of electricity sales and the water supply business, significantly reducing the respective unpaid amounts compared to current turnover.

Following the global health emergency that arose in March 2020, the provisions dictated by the government and the competent Authorities were applied, both in terms of occupational safety and business management.

This context determined a slight decrease in income in the first part of the year, largely recovered at the end of 2020, also through the option for customers in difficulty to pay in instalments, in order to allow the gradual correction of the relative positions.

As in previous years, this year the Group has set up non-recourse, revolving and spot transactions, of receivables from private custom-

ers and public administrations. This strategy exposes the Group to the risks involved in closing or failing to close these operations, and on the other hand allows the full derecognition of the corresponding assets subject to disposal from the Financial Statements since all the risks and benefits associated with them have been transferred.

Risks relating to the rating

Access to the capital market and other forms of funding and the related costs, depends amongst other things on the Group's credit rating. A reduction in the credit rating by rating agencies could represent a limiting factor for access to the capital market and increase collecting costs with the consequent negative effects on the equity, economic and financial standing of the Group.

Acea's current rating is shown in the following table.

Company	M/L Term	Short Term	Outlook	Date
Fitch	BBB+	F2	Stable	14/01/2021
Moody's	Baa2	Na	Stable	08/08/2019

OPERATING (AND FINANCIAL) OUTLOOK

The results achieved by the Acea Group at 31 December 2020 are better than the forecasts.

The Group is determined to make major investments in infrastructure that, while maintaining the solidity of its consolidated financial structure, have a positive impact on the Group's operating and economic performance.

The Group's financial structure is solid for the years to come. At 31 December 2020, 81.1% of debt is fixed rate in order to ensure protection against any increases in interest rates as well as any financial or credit volatility. At 31 December 2020 the average duration of medium/long-term debt stood at 5.4 years. Note that the reduction of the average cost went from 2.15% of 31 December 2019 to 1.74% of 31 December 2020.

For the year 2021 Acea expects:

- an increase in EBITDA between 6% and 8% compared to 2020;

- investments of approximately € 900 million;
- a net financial debt between € 3.85 and € 3.95 billion.

With regard to the Covid-19 state of emergency, the Acea Group immediately implemented all the necessary actions to ensure continuity in the services provided in the region, preserving quality and efficiency and at the same time ensuring the safety of its people through the adoption and implementation of the necessary prevention protocols. In addition, the high level of digitisation has allowed the implementation of an effective teleworking plan in all areas of the Group's activities.

The response of Acea personnel, the characteristics of the businesses managed by the Group and its financial strength have made it possible to cope with the crisis situation with timely and effective actions that are evident in the period's results.

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

Dear Shareholders,

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

- € 8,888,044.09, equal to 5% of profit, to the legal reserve,
- to distribute a total dividend of € 170,038,325.60 to Shareholders, corresponding to a unit dividend of € 0.80 per share equal to the entire distributable profit for the financial year

ended 31 December 2020 of € 168,872,837.65 and retained earnings of € 1,165,487.95.

The total dividend (coupon no. 22) of € 170,038,325.60, equal to € 0.80 per share, will be paid starting from 23 June 2021 with coupon detachment on 21 June 2021 and record date 22 June 2021.

On the date of approval of the Financial Statements, treasury shares amounted to no. 416,993.

Acea SpA
The Board of Directors