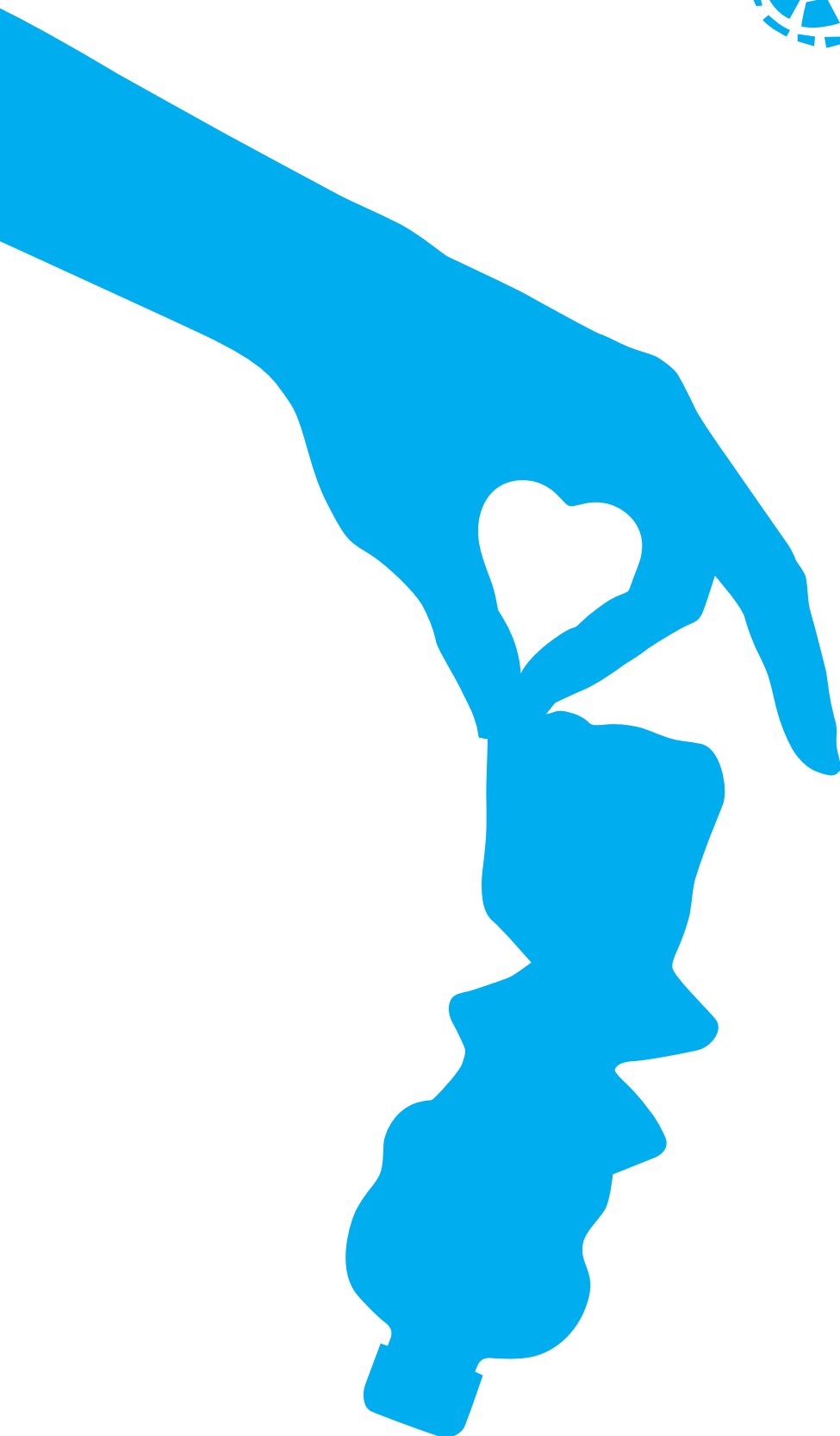




a2a
LIFE COMPANY



2020
Consolidated
Financial
Statements



Consolidated financial statements

2020

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This is a translation of the Italian original “Relazione finanziaria annuale consolidata 2020” and has been prepared solely for the convenience of international readers. In the event of any ambiguity the Italian text will prevail. The Italian original is available at the website www.a2a.eu.



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Consolidated financial statements



1.1 Consolidated balance sheet ⁽¹⁻²⁾

Assets

millions of euro	Note	12 31 2020	12 31 2019
NON-CURRENT ASSETS			
Tangible assets	1	5,162	4,869
Intangible assets	2	2,737	2,379
Shareholdings carried according to equity method	3	17	38
Other non-current financial assets	3	36	27
Deferred tax assets	4	265	277
Other non-current assets	5	28	25
Total non-current assets		8,245	7,615
CURRENT ASSETS			
Inventories	6	139	184
Trade receivables	7	2,030	1,852
Other current assets	8	685	567
Current financial assets	9	11	10
Current tax assets	10	76	63
Cash and cash equivalents	11	1,012	434
Total current assets		3,953	3,110
NON-CURRENT ASSETS HELD FOR SALE	12	28	-
TOTAL ASSETS		12,226	10,725

(1) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of related party transactions on the consolidated financial statements are provided in the statements and discussed in Note 39.

(2) Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 40 as required by Consob Communication DEM/6064293 of July 28, 2006.

Equity and liabilities

millions of euro	Note	12 31 2020	12 31 2019
EQUITY			
Share capital	13	1,629	1,629
(Treasury shares)	14	(54)	(54)
Reserves	15	1,598	1,325
Result of the year	16	364	389
Equity pertaining to the Group		3,537	3,289
Minority interests	17	579	362
Total equity		4,116	3,651
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	18	3,909	3,307
Employee benefits	19	278	307
Provisions for risks, charges and liabilities for landfills	20	752	676
Other non-current liabilities	21	146	149
Total non-current liabilities		5,085	4,439
Current liabilities			
Trade payables	22	1,552	1,481
Other current liabilities	22	866	844
Current financial liabilities	23	588	304
Tax liabilities	24	5	6
Total current liabilities		3,011	2,635
Total liabilities		8,096	7,074
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		14	-
TOTAL EQUITY AND LIABILITIES		12,226	10,725

1.2 Consolidated income statement ⁽¹⁻²⁾

millions of euro	Note	01 01 2020 12 31 2020	01 01 2019 12 31 2019
Revenues			
Revenues from the sale of goods and services		6,668	7,122
Other operating income		194	202
Total revenues	26	6,862	7,324
Operating expenses			
Expenses for raw materials and services		4,690	5,156
Other operating expenses		263	234
Total operating expenses	27	4,953	5,390
Labour costs	28	705	700
Gross operating income - EBITDA	29	1,204	1,234
Depreciation, amortization, provisions and write-downs	30	654	547
Net operating income - EBIT	31	550	687
Result from non-recurring transactions	32	-	4
Financial balance			
Financial income		12	16
Financial expenses		93	130
Affiliates		-	4
Result from disposal of other shareholdings		-	-
Total financial balance	33	(81)	(110)
Result before taxes		469	581
Income taxes	34	99	189
Result after taxes from operating activities		370	392
Net result from discontinued operations	35	(2)	1
Net result		368	393
Minorities	36	(4)	(4)
Group result of the year	37	364	389
Result per share (in euro):			
- basic		0.1171	0.1249
- basic from continuing operations		0.1175	0.1247
- basic from assets held for sale		(0.0005)	0.0002
- diluted		0.1171	0.1249
- diluted from continuing operations		0.1175	0.1247
- diluted from assets held for sale		(0.0005)	0.0002

(1) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of related party transactions on the consolidated financial statements are provided in the statements and discussed in Note 39.

(2) Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 40 as required by Consob Communication DEM/6064293 of July 28, 2006.

1.3 Consolidated statement of comprehensive income

millions of euro	12 31 2020	12 31 2019
Net result of the year (A)	368	393
Actuarial gains/(losses) on Employee's Benefits booked in the Net equity	11	(7)
Tax effect of other actuarial gains/(losses)	(3)	2
Total actuarial gains/(losses) net of the tax effect (B)	8	(5)
Effective part of gains/(losses) on cash flow hedge	34	(32)
Tax effect of other gains/(losses)	(10)	9
Total other gains/(losses) net of the tax effect of companies consolidated on a line-by-line basis (C)	24	(23)
Other gains/(losses) of companies valued at equity net of the tax effect (D)	-	-
Total comprehensive result (A) + (B) +(C) +(D)	400	365
Total comprehensive result attributable to:		
- Shareholders of the parent company	396	361
- Minority interests	(4)	(4)

With the exception of the actuarial effects on employee benefits recognized in equity, the other effects stated above will be reclassified to the Income Statement in subsequent years.

1.4 Consolidated cash-flow statement

millions of euro	12 31 2020	12 31 2019 (**)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	434	624
Operating activities		
Net Result	368	393
Net income taxes	99	189
Net financial interests	81	114
Capital gains/expenses	4	-
Tangible assets depreciation	413	379
Intangible assets amortization	142	123
Fixed assets write-downs/disposals	16	18
Net provisions	94	36
Result from affiliates	-	(4)
Net financial interests paid	(80)	(100)
Net taxes paid	(123)	(235)
Dividends paid by the parent company	(241)	(218)
Dividends paid by the subsidiaries	(15)	(14)
Change in trade receivables	(123)	(76)
Change in trade payable	25	61
Change in inventories	53	3
Other changes in net working capital	(116)	31
Cash flow from operating activities	597	700
Investment activities		
Investments in tangible assets	(451)	(380)
Investments in intangible assets and goodwill	(287)	(247)
Investments in shareholdings and securities (*)	(139)	(56)
Contribution of first consolidation of acquisitions on cash and cash equivalents	36	3
Disposal of fixed assets and shareholdings	38	-
Dividends paid by equity investments and other investments	1	-
Cash flow from investment activities	(802)	(680)
FREE CASH FLOW	(205)	20

(*) Cleared of balances in return of shareholders' equity and other balance sheet items.

(**) Values at December 31, 2019 have been reclassified according to the different presentation of the cash-flow statement adopted from December 31, 2020.

millions of euro	12 31 2020	12 31 2019 (**)
Financing activities		
Changes in financial assets		
Issuance of loans	-	-
Proceeds from loans	1	7
Other changes	(1)	1
Total changes in financial assets (*)	-	8
Changes in financial liabilities		
Borrowings/bonds issued	1,079	491
Repayment of borrowings/bond	(228)	(657)
Lease payments	(34)	(17)
Other changes	(34)	(35)
Total changes in financial liabilities (*)	783	(218)
Cash flow from financing activities	783	(210)
CHANGE IN CASH AND CASH EQUIVALENTS	578	(190)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,012	434

1.5 Statement of changes in Group equity

Description millions of euro	Share capital Note 13	Treasury shares Note 14	Cash Flow Hedge Note 15
Net equity at December 31, 2018	1,629	(54)	(7)
2018 result allocation			
Distribution of dividends			
IAS 19 reserves (*)			
Cash flow hedge reserves (*)			(23)
Other changes			
Group and minorities result of the year			
Net equity at December 31, 2019	1,629	(54)	(30)
2019 result allocation			
Distribution of dividends			
IAS 19 reserves (*)			
Cash flow hedge reserves (*)			24
Other changes			
Group and minorities result of the year			
Net equity at December 31, 2020	1,629	(54)	(6)

(*) These form part of the statement of comprehensive income.

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Other Reserves and retained earnings	Result of the year	Total Equity pertaining to the Group	Minority interests	Total Net shareholders equity
Note 15	Note 16		Note 17	
1,223	344	3,135	388	3,523
344	(344)			
(218)		(218)	(14)	(232)
(5)		(5)		(5)
		(23)		(23)
11		11	(16)	(5)
	389	389	4	393
1,355	389	3,289	362	3,651
389	(389)			
(241)		(241)	(15)	(256)
8		8		8
		24		24
93		93	228	321
	364	364	4	368
1,604	364	3,537	579	4,116

1.6 Breakdown of the balance sheet with evidence of the effect of the first consolidation of the 2020 acquisitions

(NO GAAP MEASURES)

millions of euro	Note	Consolidated at 12 31 2019	A2A Rinnovabili Group	Asm Energia S.p.A.
ASSETS				
NON-CURRENT ASSETS				
Tangible assets	1	4,869	10	0
Intangible assets	2	2,379	11	11
Shareholdings carried according to equity method	3	38	0	0
Other non-current financial assets	3	27	1	0
Deferred tax assets	4	277	0	1
Other non-current assets	5	25	0	0
TOTAL NON-CURRENT ASSETS		7,615	22	12
CURRENT ASSETS				
Inventories	6	184	0	0
Trade receivables	7	1,852	1	20
Other current assets	8	567	0	3
Current financial assets	9	10	0	0
Current tax assets	10	63	0	1
Cash and cash equivalents	11	434	1	5
TOTAL CURRENT ASSETS		3,110	2	29
NON-CURRENT ASSETS HELD FOR SALE	12	0	0	0
TOTAL ASSETS		10,725	24	41
LIABILITIES				
NON-CURRENT LIABILITIES				
Non-current financial liabilities	18	3,307	9	0
Deferred tax liabilities		0	0	3
Employee benefits	19	307	0	0
Provisions for risks, charges and liabilities for landfills	20	676	0	2
Other non-current liabilities	21	149	1	3
TOTAL NON-CURRENT LIABILITIES		4,439	10	8
CURRENT LIABILITIES				
Trade payables	22	1,481	0	9
Other current liabilities	22	844	1	2
Current financial liabilities	23	304	1	0
Tax liabilities	24	6	0	0
TOTAL CURRENT LIABILITIES		2,635	2	11
TOTAL LIABILITIES		7,074	12	19
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	25	0	0	0
LIABILITIES		7,074	12	19

It should be noted that 2 business units were purchased in the Waste Business Unit the value of which is lower than one million euro.

Agritre S.r.l.	Tre Stock S.r.l.	Fragea S.r.l.	AEB Group	Total effect first consolidation acquisitions 2020	Changes during the year	Consolidated at 12 31 2020
83	3	9	87	192	101	5,162
0	0	0	226	248	110	2,737
0	0	0	0	0	(21)	17
1	0	0	1	3	6	36
1	0	0	14	16	(28)	265
0	0	0	6	6	(3)	28
85	3	9	334	465	165	8,245
2	0	0	6	8	(53)	139
9	1	1	53	85	93	2,030
6	0	0	27	36	82	685
0	0	0	0	0	1	11
0	0	0	0	1	12	76
9	0	0	21	36	542	1,012
26	1	1	107	166	677	3,953
0	0	0	0	0	28	28
111	4	10	441	631	870	12,226
50	1	8	13	81	521	3,909
4	0	0	17	24	(24)	0
0	0	0	4	4	(33)	278
3	0	0	20	25	51	752
0	0	0	5	9	(12)	146
57	1	8	59	143	503	5,085
4	0	1	32	46	25	1,552
1	0	0	20	24	(2)	866
0	0	1	4	6	278	588
0	0	0	1	1	(2)	5
5	0	2	57	77	299	3,011
62	1	10	116	220	802	8,096
0	0	0	0	0	14	14
62	1	10	116	220	816	8,110

1.7 Breakdown of the economic effect of the consolidation of new acquisitions 2020 (NO GAAP MEASURES)

millions of euro	Note	Effect first consolidation A2A Rinnovabili Group	Effect first consolidation ASM Energia S.p.A.	Effect first consolidation Agritre S.r.l.
REVENUES				
Revenues from the sale of goods and services		-	29	15
Other operating income		1	-	8
TOTAL REVENUES	27	1	29	23
OPERATING EXPENSES				
Expenses for raw materials and services		1	25	11
Other operating expenses		-	1	1
TOTAL OPERATING EXPENSES	28	1	26	12
LABOUR COSTS	29	-	1	2
GROSS OPERATING INCOME - EBITDA	30		2	9
DEPRECIATION, AMORTIZATION AND WRITE-DOWNS	31	-	-	4
NET OPERATING INCOME - EBIT	32		2	5
RESULT FROM NON-RECURRING TRANSACTIONS	33	-	-	-
FINANCIAL BALANCE				
Financial income		-	-	-
Financial expenses		-	-	1
Affiliates		-	-	-
Result from disposal of other shareholdings		-	-	-
TOTAL FINANCIAL BALANCE	34			(1)
RESULT BEFORE TAXES		-	2	4
INCOME TAXES	35	-	1	-
RESULT AFTER TAXES FROM OPERATING ACTIVITIES		-	1	4
NET RESULT FROM DISCONTINUED OPERATIONS	36	-	-	-
NET RESULT		-	1	4
MINORITIES	37	-	-	-
GROUP RESULT OF THE YEAR	38	-	1	4

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Effect first consolidation Trestock S.r.l.	Effect first consolidation Fragea S.r.l.	Effect first consolidation AEB Group	Total effect consolidation new acquisitions 2020	Old perimeter 12 31 2020	Consolidated at 12 31 2020	Consolidated al 12 31 2019
-	1	65	110	6,558	6,668	7,122
-	-	4	13	181	194	202
-	1	69	123	6,739	6,862	7,324
1	1	50	89	4,601	4,690	5,156
-	-	2	4	259	263	234
1	1	52	93	4,860	4,953	5,390
-	-	7	10	695	705	-
(1)	-	10	20	1,184	1,204	1,234
-	-	6	10	644	654	547
(1)	-	4	10	540	550	687
-	-	-	-	-	-	4
-	-	1	1	11	12	16
-	-	-	1	92	93	130
-	-	-	-	-	-	4
-	-	-	-	-	-	-
-	-	1	-	(81)	(81)	(110)
(1)	-	5	10	459	469	581
-	-	1	2	97	99	189
(1)	-	4	8	362	370	392
-	-	-	-	(2)	(2)	1
(1)	-	4	8	360	368	393
-	-	(3)	(3)	(1)	(4)	(4)
(1)	-	1	5	359	364	389



Consolidated financial statements
pursuant to Consob Resolution
no. 17221 of March 12, 2010



2.1 Consolidated balance sheet

pursuant to Consob Resolution no. 17221 of March 12, 2010

Assets

millions of euro	12 31 2020	of which Related Parties (note 39)	12 31 2019	of which Related Parties (note 39)
NON-CURRENT ASSETS				
Tangible assets	5,162		4,869	
Intangible assets	2,737		2,379	
Shareholdings carried according to equity method	17	17	38	38
Other non-current financial assets	36	4	27	4
Deferred tax assets	265		277	
Other non-current assets	28		25	
Total non-current assets	8,245		7,615	
CURRENT ASSETS				
Inventories	139		184	
Trade receivables	2,030	126	1,852	107
Other current assets	685	2	567	1
Current financial assets	11	1	10	1
Current tax assets	76		63	
Cash and cash equivalents	1,012		434	
Total current assets	3,953		3,110	
NON-CURRENT ASSETS HELD FOR SALE	28		-	
TOTAL ASSETS	12,226		10,725	

Equity and liabilities

millions of euro	12 31 2020	of which Related Parties (note 39)	12 31 2019	of which Related Parties (note 39)
EQUITY				
Share capital	1,629		1,629	
(Treasury shares)	(54)		(54)	
Reserves	1,598		1,325	
Result of the year	364		389	
Equity pertaining to the Group	3,537		3,289	
Minority interests	579		362	
Total equity	4,116		3,651	
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	3,909		3,307	
Employee benefits	278		307	
Provisions for risks, charges and liabilities for landfills	752	1	676	1
Other non-current liabilities	146		149	
Total non-current liabilities	5,085		4,439	
Current liabilities				
Trade payables	1,552	56	1,481	29
Other current liabilities	866	7	844	7
Current financial liabilities	588		304	
Tax liabilities	5		6	
Total current liabilities	3,011		2,635	
Total liabilities	8,096		7,074	
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	14		-	
TOTAL EQUITY AND LIABILITIES	12,226		10,725	

2.2 Consolidated income statement

pursuant to Consob Resolution no. 17221 of March 12, 2010

millions of euro	01 01 2020 12 31 2020	of which Related Parties (note 39)	01 01 2019 12 31 2019	of which Related Parties (note 39)
Revenues				
Revenues from the sale of goods and services	6,668	452	7,122	444
Other operating income	194		202	
Total revenues	6,862		7,324	
Operating expenses				
Expenses for raw materials and services	4,690	8	5,156	5
Other operating expenses	263	55	234	30
Total operating expenses	4,953		5,390	
Labour costs	705	1	700	2
Gross operating income - EBITDA	1,204		1,234	
Depreciation, amortization, provisions and write-downs	654		547	
Net operating income - EBIT	550		687	
Result from non-recurring transactions	-		4	
Financial balance				
Financial income	12	6	16	7
Financial expenses	93		130	
Affiliates	-		4	4
Result from disposal of other shareholdings	-		-	
Total financial balance	(81)		(110)	
Result before taxes	469		581	
Income taxes	99		189	
Result after taxes from operating activities	370		392	
Net result from discontinued operations	(2)		1	
Net result	368		393	
Minorities	(4)		(4)	
Group result of the year	364		389	

A scenic landscape featuring a grassy hill in the foreground, a large tree on the left, and mountains in the background. A person is walking on a path in the foreground. The sky is blue with some clouds.

3

Notes to the Consolidated annual report

3.1 General information

A2A S.p.A. is a company with legal personality organized under the laws of the Italian Republic which operates, also through its subsidiaries ("Group"), both in Italy and abroad.

The A2A Group mainly operates in the following sectors:

- the production, sale and distribution of electricity even from renewable resources;
- the sale and distribution of gas;
- the production, distribution and sale of heat through district heating networks;
- waste management (from collection and sweeping to disposal) and the construction and management of integrated waste disposal plants and systems, also making these available for other operators;
- integrated water cycle management;
- technical consultancy relating to energy efficiency certificates.

3.2 Consolidated annual report

The consolidated annual report (hereafter referred to as the “**Annual report**”) of the A2A Group at December 31, 2020, is presented in millions of euro; the euro is also the functional currency of the economies in which the Group operates.

- The Annual report of the A2A Group at December 31, 2020 has been prepared:
- in compliance with Legislative Decree 58/1998 (art. 154-ter) as amended and with the Issuers' Regulations published by Consob;
 - in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union. IFRS means all the revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).

In preparing the Annual report, the same principles used in the preparation of the consolidated annual financial report at December 31, 2020 were applied, other than the principles and interpretations described in detail in the paragraph below “Changes in accounting principles” adopted for the first time on January 1, 2020.

In this file, use has been made of some Alternative Performance Measures (APM) that are different from the financial indicators expressly provided for by the IAS/IFRS international accounting standards adopted by the Group; for details of these indicators, please see the specific paragraph Alternative Performance Measures (APM) in the file of the Report on Operations.

This Annual report at December 31, 2020 was approved on March 18, 2021 by the Board of Directors, which authorized publication, and has been audited by EY S.p.A. in accordance with their appointment by the Shareholders' Resolution of June 11, 2015 for the nine years from 2016 to 2024.

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3.3 Financial statements

The Group has adopted a format for the balance sheet which presents current and non-current assets and current and non-current liabilities as separate classifications, as required by paragraphs 60 and following of IAS 1.

The income statement is presented by nature, a format which is considered more representative than a presentation by function. The selected format is in agreement with the presentation used by the Group's major competitors and in line with international practice.

The specific line items "Result from non-recurring transactions" and "Result from disposal of other shareholdings" are in the format of the income statement in order to provide clear and immediate identification of the results arising from non-recurring transactions forming part of continuing operations, separating these from the results from discontinued operations. In particular, it should be noted that the item "Result from non-recurring transactions" is intended to include the results from the sale of investments in subsidiaries and associates and other non-operating expenses/income. This item is presented between net operating income and the financial balance. In this way net operating income is not affected by non-recurring operations, making it easier to measure the effective performance of the Group's ordinary operating activities.

The Cash Flow Statement is prepared using the indirect method, as permitted by "IAS 7" and includes the disclosure amendments introduced by the integration to "IAS 7" approved on November 9, 2017.

The statement of changes in equity has been prepared in accordance with IAS 1.

It should be noted that the financial statements presented are the same as those adopted in the preparation of the Consolidated Annual Financial Report for the year ended December 31, 2019, with the exception of the Statement of Cash Flows schedule for which the amounts at December 31, 2019 have been reclassified from the published financial statements to adjust them to a new presentation of items adopted from December 31, 2020.

3.4 Basis of preparation

The consolidated annual financial report at December 31, 2020 has been prepared on a historical cost basis, with the exception of those items which under IFRS must or can be measured at fair value.

The consolidation principles, the accounting standards, the accounting policies and the methods of measurement used in the preparation of the Annual financial report are consistent with those used to prepare the consolidated annual financial report at December 31, 2019, except as specified below regarding newly enacted standards.

3.5 Changes in international accounting standards

Pursuant to IAS 8, the subsequent paragraph “Accounting standards, amendments and interpretations applicable by the company as of the current year” indicates and briefly illustrates the amendments in force as of January 1, 2020.

The following paragraph, “Accounting standards, amendments and interpretations approved by the European Union” instead detail the accounting standards and interpretations already issued, not yet approved by the European Union and therefore not applicable for the preparation of the financial statements at December 31, 2020, any impacts of which will then be transposed as of the financial statements of the following years.

Accounting standards, amendments and interpretations applicable as of the current year

As from January 1, 2020, applicable to the Group are the following additions to specific paragraphs of the international accounting standards already adopted by the Group companies in previous years:

- IAS 1 and IAS 8: approved on December 10, 2019 and in force from financial statements ending as of January 1, 2020, the integration provides a new definition of information relevance, also introducing the concept of concealing information. In particular, according to this integration, information is relevant if it is reasonable to assume that its omission, incorrect indication or concealment may influence the decisions that the main users of the financial statements prepared for general purposes take on the basis of the financial statements, which provide financial information about the specific entity that prepares the financial statements. This integration has had no effect on the information provided in the Financial Report or on the Group's economic and financial results;
- IFRS 9, IAS 39 and IFRS 7: approved on January 16, 2020 and effective as of January 1, 2020, the supplement to the standards in question provides scope of application to the reforming major interest rate benchmarks with which the European Council for financial stability issued recommendations aimed at strengthening existing reference indices and other potential reference rates based on interbank markets and developing alternative reference rates that are almost risk-free. This integration did not have any impact on the Group's economic and financial results;
- IFRS 3 “Business Combinations”: approved on April 22, 2020 and effective from financial statements ended as of January 1, 2020, the integration aims to clarify the concept of Business, fundamental in the definition of a business combination. It is clarified that the key concepts of a business are: a) production factors, i.e. any economic resource that creates production or is capable of contributing to the creation of production when one or more processes are applied to it; b) process, i.e. any system, standard, protocol, convention or rule that, when applied to production factors, creates production or is capable of contributing to the creation of production; c) production, i.e. the result of production factors and processes applied to production factors that provide goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary operations. This integration did not have any impact on the Group's economic and financial results;
- IFRS 16 “Leases”: approved on October 12, 2020 and applicable to all financial statements closed from June 1, 2020, the integration aims to neutralize the accounting effects resulting from changes in lease payments (cancellation or reduction of lease payments) arising from agreements between parties in consideration of the negative effects of COVID-19. In the absence of such action by the regulator, these amendments would have resulted in a restatement of the financial liability and the carrying amount of the asset consisting of the right of use, resulting in a significant administrative burden. This integration did not have any impact on the Group's economic and financial results since the payments related to contracts covered by IFRS 16 were not changed.

Accounting standards, amendments and interpretations not yet approved by the European Union

- IFRS 17 “Insurance contracts”: issued by the IASB on May 18, 2017, will be applicable to companies that issue insurance contracts from the financial statements closed as of January 1, 2023. No impacts are expected on the Group's economic and financial situation.
- On January 23, 2020 and July 15, 2020, the IASB issued two additions to IAS 1 “Presentation of Financial Statements” that aim to better define the concept of liabilities and the related classification between short and medium/long-term. Specifically, emphasis is placed on the temporal concept of transferring money or other resources to the counterparty to settle the liability. The integration will be applicable to financial statements for the period beginning January 1, 2022 and is not expected to have an impact on the Group's economic and financial situation.
- On October 22, 2018, the IASB issued a supplement to IFRS 3 “Business Combinations”, applicable from financial statements ending January 1, 2022 that helps companies understand whether an acquisition is definable as an asset combination or a business. In particular, it clarifies that, to define

an acquisition as a business, it must be possible to provide goods or services to customers, unlike as indicated by the original standard that has a focus on the ability to produce dividends or economic benefits to stakeholders. No impacts are expected on the Group's economic and financial situation. On May 14, 2020, the IASB issued amendments to IAS 16 "Property, Plant and Equipment" and IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" both applicable to financial statements ending January 1, 2022. The amendment to IAS 16 clarifies the prohibition on deducting from the cost of the tangible asset any revenues deriving from the sale of materials used during the period of production and start-up of the asset. These revenues are recognized in the Income Statement when realised. The amendment to IAS 37 specifies the costs to be included when considering the obligation arising from the conclusion of an onerous contract. The amendment provides for the application of the directly related cost approach. Costs that relate directly to a contract for the provision of goods or services include both incremental costs and costs directly attributed to contractual activities. General and administrative expenses are not directly related to a contract and are excluded unless they are explicitly chargeable to the other party under the contract. No impacts are expected on the Group's economic and financial situation.

- On September 26, 2019, the IASB issued an amendment to IFRS 9, IAS 39 and IFRS 7, applicable from financial statements ending January 1, 2022, in which it clarifies when a derivative contract can be defined and treated as a hedge in periods of central bank interest rate benchmark reform. No impacts are expected on the Group's economic and financial situation.
- On June 24, 2020, the IASB issued, as part of the 2018-2020 improvement file, a supplement to IFRS 9 clarifying the fees that an entity includes in determining whether the terms of a new or amended financial liability are materially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender. The amendment will be effective for financial years beginning on January 1, 2022, and is not expected to have an impact on the Group's economic and financial situation.

3.6 Scope of consolidation

The Consolidated annual report of the A2A Group at December 31, 2020 includes the figures of the parent A2A S.p.A. and those of the subsidiaries over which A2A S.p.A. exercises either direct or indirect control. In addition, companies in which the parent exercises joint control with other entities (joint ventures) and those over which it has a significant influence are consolidated using the equity method.

The following changes to the scope of consolidation of the A2A Group are reported:

- acquisition by LGH S.p.A. and line-by-line consolidation of Agritre S.r.l., Tre Stock S.r.l. and Fragea S.r.l., companies operating in the biomass generation segment;
- acquisition by A2A Rinnovabili S.p.A. and line-by-line consolidation of 100% of Flabrum S.r.l. and Solar Italy V S.r.l., companies operating in the sector of power generation from renewable sources;
- line-by-line consolidation of ASM Energia S.p.A., a company operating on the gas and electricity sale market, starting February 1, 2020;
- incorporation by A2A S.p.A. and line-by-line consolidation of A2A Telecommunications S.r.l., telecommunication services company;
- line-by-line consolidation of the AEB Group as of November 1, 2020. The consolidated amounts reflect the effects of the purchase price allocation required by IFRS 3.

Lastly, the following equity investments were reclassified to “Non-current assets held for sale”:

- the investment held by A2A Energy Solutions S.r.l. in Consul System S.p.A., previously consolidated on a line-by-line basis, has been reclassified as a result of the sale of 26% of the shares in December 2020, which was completed at the end of January 2021;
- the investment held by A2A S.p.A. in Ge.S.I. S.r.l., previously consolidated using the equity method, has been reclassified following the exercise of the put option, signed on November 23, 2020, on the entire investment.

For further details on the activities of the Purchase Price Allocation required by IFRS 3, reference is made to the paragraph “Other information” of this report.

3.7 Consolidation policies and procedures

Consolidation policies

Subsidiaries

Subsidiaries are those companies over which the parent company, A2A S.p.A., exercises control, also by virtue of shareholders' agreements, and has the power, as defined by IFRS 10, to determine financial and operating policy, either directly or indirectly, in order to obtain returns from their activities. Subsidiaries are consolidated from the date on which the Group effectively acquires control and cease to be consolidated on a line-by-line basis from the date on which control is transferred to a company outside the Group.

Associates, joint ventures and joint operations

Shareholdings in associates, namely those in which the A2A Group has a considerable interest and is able to exercise significant influence are accounted for using the equity method. Gains and losses attributable to the Group are recognized in the financial statements from the date on which significant influence or joint control commences.

In the event that the loss attributable to the Group exceeds the carrying amount of an investment, the carrying amount is reduced to zero and any excess loss is provided for to the extent that the Group has legal or constructive obligations to make good the associate's losses or in any case to make payments on its behalf.

With the adoption of IFRS 11, the Group must now classify investments in joint arrangements as either joint ventures (if the Group has rights to the net assets of the arrangement) or joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement).

Potential voting rights

If the A2A Group holds call options on shares or other equity instruments that represent capital (warrants) that are convertible into ordinary shares or similar instruments having the potential, if exercised or converted, to give the Group voting rights or reduce the voting rights of third parties ("potential voting rights"), such potential voting rights are taken into consideration when assessing whether or not the Group has the power to govern or influence another company's financial and operating policies.

Treatment of put options on the shares of subsidiaries

In general, paragraph 23 of IAS 32 states that a contract that contains an obligation for an entity to purchase shares for cash or another financial asset gives rise to a financial liability for the present value of the exercise price of the option.

As a result, therefore, if the Group does not have the unconditional right to avoid the delivery of cash or other financial instruments when a put option on the shares of subsidiaries is exercised, it must recognize a liability.

In the absence of specific instructions in the related accounting standards, the A2A Group: (i) considers the shares involving put options to have already been purchased, including in cases in which the risks and rewards connected with ownership of the shares remain with the minority shareholders and they remain exposed to equity risk; (ii) records a corresponding entry among equity reserves for the liability resulting from the obligation and any subsequent changes that are not related to the mere unwinding of the present value of the strike price; (iii) and recognises such changes through the Income Statement.

Effect on the consolidation procedures of certain agreements involving the shares or quotas of Group companies

a) Earn-out and earn-in clauses on the purchase price of the shares of LGH S.p.A.

In 2016, A2A S.p.A. finalized the acquisition of 51% of the share capital of LGH S.p.A..

The value of the transaction was 98.9 million euro, paid for 51.7 million euro in cash and in treasury shares of A2A S.p.A. for a value of 47.2 million euro, of which 37.2 million euro related to shares purchased in the first half of 2016 and 10 million euro relating to treasury shares already held in portfolio at December 31, 2015.

Included in the acquisition value, A2A S.p.A. paid an amount of 9.6 million euro to minority shareholders of LGH S.p.A. related to specific earn-in clauses set at transaction closing.

Based on the initial contractual agreements signed by A2A S.p.A. with the minority shareholders of LGH S.p.A., it was agreed that A2A S.p.A., within the third year from the transaction closing date, upon the fulfilment of certain conditions, would pay up to a maximum of 13.9 million euro included in the acquisition value of LGH S.p.A. of 112.8 million euro, regulated by specific and well-identified earn-out clauses.

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Based on the Purchase Price Allocation concluded in June 2017, the percentage probabilities of achieving some earn-out clauses have been revised downwards, resulting in a maximum payout of 7 million euro to minority shareholders resulting in an acquisition value of 106.4 million euro.

In accordance with the provisions of paragraphs 65B, 65C and 65D of IFRS 3, the Group recorded the effects of the contractual earn-outs for 2.1 million euro under long-term payables, with the investment value as balancing entry, with respect to the disbursement it will pay to the minority shareholders of LGH S.p.A. upon the fulfilment of the conditions established in the contract, since said adjustments are still considered probable and reliably determined at the acquisition date.

b) Earn-in/out on the purchase price of A2A Recycling S.r.l. (former RI.ECO-RESMAL Group)

The contractual agreements governing the acquisition of A2A Recycling S.r.l. (former RI.ECO-RESMAL Group) envisage, among other things, an earn-in clause in favour of A2A Ambiente S.p.A., linked both to an eventual non-renewal of the concession of the Cernusco plant for reasons not attributable to A2A Ambiente S.p.A., and to any disbursements and expenses incurred to obtain renewal of the concession. This clause will have an eventual effect from the third year and no later than the fifth year after the closing of the transaction.

In accordance with paragraphs 65B, 65C and 65D of IFRS 3, the Group considered the amount paid by way of earn-in as the investment value since said adjustments are not considered probable and reliably determined at the acquisition date.

c) Earn-out on the purchase of special purpose vehicles from Novapower S.p.A., Impax Limited and Flabrum S.r.l.

By contract, there are price and earn-out adjustments of non-significant amounts both in favour of the seller and in favour of the buyer upon the occurrence of certain conditions.

In accordance with the provisions of IFRS 3, the Group completed the Purchase Price Allocation processes, related to the purchases of Novapower S.p.A. and Impax Limited, allocating to other intangible assets the difference between the amount transferred, measured in accordance with IFRS 3, and the net fair value attributed to assets acquired and liabilities undertaken. With regard to the purchases of Flabrum S.r.l., the Group will complete the Purchase Price Allocation process within the time frame required by IFRS 3.

e) Options on the shares of Suncity Group S.r.l.

On April 16, 2019, the incorporation of Suncity Group S.r.l., a holding company of energy efficiency companies, was completed, with a simultaneous capital increase of 26%. The transaction was completed by the subsidiary A2A Energy Solutions S.r.l., ESCo (Energy Service Company) of the A2A Group, for a value of 1.3 million euro, entirely settled in cash at closing.

It was also established that, within 30 days of the deadline for approval of the financial statements at December 31, 2022, A2A Energy Solutions S.r.l. will have the right to exercise the option to purchase the remaining 74% of the share capital of the incorporated NewCo. The right to exercise the 74% put option by Suncity Partner to A2A Energy Solutions S.r.l. under the same conditions is also provided for.

Therefore, in accordance with paragraph 23 of IAS 32, the Group has recognized as a liability the present value of the estimated outlay of 4.1 million euro which it will not be able to avoid if the option is exercised.

f) Options on the shares of Electrometal S.p.A.

On December 20, 2019, A2A Ambiente S.p.A. acquired 90% of Electrometal S.r.l..

As a result of point 9) of the shareholding purchase agreement, a call option is provided on the part of A2A Ambiente S.p.A. and a put option on the part of GAE S.r.l. (the seller) of the remaining 10%, exercisable from January 1, 2025 until December 31, 2025.

In 2020, a payment of 0.5 million euro was made as price adjustment on the net financial position.

The valuation of this option is proportional to the final value of 90% of the shares of Electrometal S.r.l.. Therefore, in accordance with paragraph 23 of IAS 32, the Group has recognized as a liability the present value of the estimated outlay of 2.1 million euro which it will not be able to avoid if the option is exercised.

Consolidation procedures

General procedure

The financial statements of the subsidiaries, associates and joint ventures consolidated by the A2A Group are prepared at the end of each reporting period using the same accounting policies as the parent. Any items recognized by using different accounting standards are adjusted during the

consolidation process to bring them into line with Group accounting policies. All intra-group balances and transactions, including any unrealized profits arising from transactions between Group companies, are fully eliminated.

In preparing the Report the assets, liabilities, income and expenses of the companies being consolidated are included in their entirety on a line-by-line basis, with the portion of equity and net income for the period attributable to minority interests being stated separately in the balance sheet and income statement.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of its net equity, including any adjustments to fair value at the acquisition date; any differences arising are accounted for in accordance with IFRS 3.

Transactions with minority interests which do not lead to the loss of control in consolidated companies are accounted for using the economic entity view approach.

Adoption of international accounting standard IFRS 12 “Disclosure of Interests in Other Entities”

With effect from January 1, 2014, the A2A Group has among other things adopted international accounting standard IFRS 12 “Disclosure of Interests in Other Entities”, issued by the IASB in 2011 and adopted by the European Commission on December 11, 2012.

On the basis of the requirements of paragraphs 7 and following of the standard the Group discloses information below about the significant judgements and assumptions it has made in determining:

- i. that the parent company has control of another entity within the meaning of IFRS 10;
- ii. the type of joint arrangement (joint operation or joint venture) when the arrangement has been structured through a separate vehicle, in compliance with IFRS 11;
- iii. that the parent company has significant influence over another entity (shareholdings in associates).

Shareholdings in joint ventures (IFRS 11): Ergosud S.p.A. and PremiumGas S.p.A.

IFRS 11 identifies two types of arrangement, joint operations and joint ventures, on the basis of the rights and obligations of the parties, and governs the resulting accounting treatment to be adopted for the recognition of these arrangements in the financial statements.

The most significant effect of the new standard is the fact that a number of entities jointly controlled by A2A, which up until now have been recognized using the equity method, could fall under the definition of joint operations on the basis of the requirements of IFRS 11. The accounting treatment for this type of joint arrangement requires the assets/liabilities and revenue/expenses connected with the arrangement to be recognized on the basis of the rights/obligations due to/assumed by A2A, regardless of the interest held.

In the particular case of its shareholdings in two joint arrangements operating in the Generation and Trading Business Unit, Ergosud S.p.A. and PremiumGas S.p.A., the A2A Group considers that these fall under the category joint ventures as far as their legal form and the nature of the contractual agreements are concerned.

In particular, as regards the shareholding in PremiumGas S.p.A., the Group has rights exclusively linked to the results achieved by the company.

On September 26, 2018, PremiumGas S.p.A. was placed in voluntary liquidation.

For the shareholding in Ergosud S.p.A., despite the existence of a tolling agreement the investee could dispatch energy autonomously, thereby ensuring business continuity also at the end of the agreement. In addition, the A2A Group does not appoint any of the company's key management.

On the basis of the above considerations, the A2A Group has accounted for the shareholdings using the equity method, continuing the treatment used in previous years.

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Key figures at December 31, 2020 millions of euro	Bergamo Pulita 50%	PremiumGas 50%	Metamer 50% (figures at 12 31 2019) (*)	Ergosud 50% (figures at 12 31 2019) (*)
INCOME STATEMENT				
Revenues	0.08	0.1	31.0	18.1
Gross Operating Income	(0.01)	0.04	0.9	12.5
% of net revenues	n.s.	n.s.	2.8%	69.1%
Depreciation, amortization and write-downs	-	0.01	0.2	7.8
Net Operating Income	(0.01)	0.03	0.7	4.7
Result for the year	(0.01)	0.03	0.5	1.4
BALANCE SHEET				
Total assets	5.06	8.4	8.2	147.8
Net equity	0.17	3.0	2.1	71.4
Net (debt)	0.06	1.5	0.5	(57.4)

(*) Figures of the last financial statements available.

Key figures at December 31, 2019 millions of euro	Bergamo Pulita 50%	PremiumGas 50%	Metamer 50% (figures at 12 31 2018) (*)	Ergosud 50% (figures at 12 31 2018) (*)
INCOME STATEMENT				
Revenues	0.07	0.01	30.9	21.9
Gross Operating Income	(0.05)	-	0.3	14.9
% of net revenues	n.s.	n.s.	1.0%	68.0%
Depreciation, amortization and write-downs	-	-	0.1	8.9
Net Operating Income	(0.05)	-	0.2	6.0
Result for the year	(0.50)	-	0.1	3.6
BALANCE SHEET				
Total assets	5.48	8.7	8.8	153.2
Net equity	0.19	3.0	1.6	70.0
Net (debt)	0.03	1.9	0.3	(66.2)

(*) Figures of the last financial statements available.

Procedure for the consolidation of assets and liabilities held for sale (IFRS 5)

In the case of particularly large amounts and in connection with non-current assets and liabilities held for sale, and only in this case, in accordance with IFRS 5 the relative intra-group financial receivables and payables are not eliminated in order to provide a clear presentation of the financial impact of a possible disposal.

3.8 Accounting standards and policies

Translation of foreign currency items

The consolidated financial statements of the A2A Group are presented in euro; this is also the functional currency of the economies in which the Group operates.

Transactions in other currencies are initially recognized at the exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into euro at the exchange rates at the balance sheet date.

Non-monetary items measured at historical cost in foreign currency are translated at the exchange rates at the date of the transaction. Non-monetary items measured at fair value are translated at the exchange rates at the date when the fair value was determined.

Tangible assets

Assets for business use are classified as tangible assets, while non-business assets are classified as investment property.

Tangible assets are measured at cost, including any additional charges directly attributable to bringing the asset into an operating condition (e.g. transport, customs duty, installation and testing costs, notary and land registry fees and any non-deductible VAT), increased when material and where there are obligations by the present value of the estimated cost of restoring the location from an environmental point of view or dismantling the asset. Borrowing costs, where directly attributable to the purchase or construction of an asset, are capitalized as part of the cost of the asset if the type of asset so warrants.

If important components of tangible assets have different useful lives, they are accounted for separately using the “component approach”, assigning to each component its own useful life for the purpose of calculating depreciation (the component approach).

Land, whether occupied by residential or industrial buildings or devoid of construction, is not depreciated as it has an unlimited useful life, except for land used in production activities that is subject to deterioration over time (e.g. landfills, quarries).

Ordinary maintenance costs are fully expensed to the income statement in the year they are incurred. Costs for maintenance carried out at regular intervals are attributed to the assets to which they refer and are depreciated over the specific residual possibility of use of such.

Tangible assets are stated net of accumulated depreciation and any write-downs. Depreciation is charged from the year in which the individual asset enters service on a straight-line basis over the estimated useful life of the asset for the business. The estimated realizable value which is deemed to be recoverable at the end of an asset’s useful life is not depreciated. The useful life of each asset is reviewed annually and any changes, if needed, are made with a view to showing the correct value of the asset.

Landfills are depreciated on the basis of the percentage filled, which is calculated as the ratio between the volume occupied at the end of the period and the total volume authorized.

The main depreciation rates used, which are based on technical and economic considerations, are as follows:

• buildings	1% - 23.1%
• production plants	1% - 33.3%
• transport lines	2.1% - 7.4%
• transformation stations	2.5% - 10%
• distribution networks	0.9% - 12.5%
• fiber-optic networks	5%
• miscellaneous equipment	4% - 33.3%
• mobile phones	100%
• furniture and fittings	6% - 20%
• electric and electronic office machines	5% - 33.3%
• vehicles	10% - 20%
• e-moving	10% - 16.9%
• leasehold improvements	2% - 26.1%
• leased assets	5.6% - 7.7%

Tangible assets are subjected to impairment testing if there is any indication that an asset may be impaired in accordance with the paragraph below "Impairment of assets"; write-downs may be reversed in subsequent periods if the reasons for which they were recognized no longer apply.

When an asset is disposed of or if future economic benefits are no longer expected from using an asset, it is removed from the balance sheet and any gain or loss (being the difference between the disposal proceeds and the carrying amount) is recognized in the income statement in the year of the derecognition.

Leasing

Assets for rights of use are recognized on the start date of the lease, i.e. the date on which the underlying asset is available for use.

Rights to use assets are measured at cost, net of accumulated depreciation and impairment losses, and adjusted for any restatement of lease liabilities. The cost of assets for rights of use includes the amount of lease liabilities recognized and lease payments made on or before the commencement of the lease. Assets for right of use are depreciated on a straight-line basis from the effective date to the end of the useful life of the asset consisting of the right of use or at the end of the lease term, whichever is earlier. If the lease transfers ownership of the underlying asset to the lessee at the end of the term of the contract or if the cost of the asset consisting of the right of use reflects the fact that the lessee will exercise the purchase option, the asset consisting of the right of use is depreciated from the effective date until the end of the useful life of the underlying asset.

Lease liabilities are recognized at the present value of lease payments not yet paid at the reporting date. Lease payments also include the exercise price of a purchase option if it is reasonably certain that the option will be exercised.

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which are controlled by the enterprise and able to produce future economic benefits, and include goodwill when acquired for consideration.

The fact of being identifiable distinguishes an intangible asset that has been acquired from goodwill; this requirement is normally met when: (i) the intangible asset is attributable to a legal or contractual right, or (ii) the asset is separable, in other words it can be sold, transferred, rented or exchanged individually or as an integral part of other assets.

Control by the enterprise consists of the right to enjoy the future economic benefits flowing from the asset and to restrict the access of others to those benefits.

Intangible assets are stated at purchase or production cost, including ancillary charges, determined in the same way as for tangible assets. Intangible fixed assets produced internally are not capitalized but recognized in the income statement in the year in which the costs are incurred.

Intangible assets with a definite useful life are reported in the financial statements net of the related accumulated amortization and impairments in the same way as for tangible assets. Changes in the expected useful life or in the ways in which the future economic benefits of an intangible asset are achieved by the Company are accounted for by suitably adjusting the period or method of amortization, treating them as changes in accounting estimates. The amortization of intangible fixed assets with a definite useful life is charged to income statement in the cost category that reflects the function of the intangible asset concerned.

Intangible assets are subjected to impairment testing if there are specific indications that they may be impaired, in accordance with the paragraph below "Impairment of assets"; impairment losses may be reversed in subsequent periods if the reasons for which they were recognized no longer apply.

Intangible assets with an indefinite useful life and those that are not yet available for use are subjected to impairment testing on an annual basis, whether or not there are any specific indications that they may be impaired, in accordance with the paragraph below "Impairment of assets". Impairment losses recognized for goodwill are not reversed.

Gains or losses on the disposal of an intangible asset are calculated as the difference between the disposal proceeds and the carrying amount of the asset and recognized in the Income Statement at the time of the disposal.

The following amortization rates are applied to intangible assets with a definite useful life:

- industrial patents and intellectual property rights _____ 20% - 33.3%
- concessions, licenses, trademarks and similar rights _____ 1.6% - 33.3%
- other intangible assets _____ 2.1% - 60%

Service concession arrangements

IFRIC 12 states that, based on the characteristics of the concession arrangement, the infrastructures used in the provision of public services under concession are to be recognized as intangible assets if the operator has the right to receive a payment from the customer for the service provided, and/or as a financial asset if the operator has the right to receive payment from the public sector entity.

Impairment/Reversal of tangible and intangible fixed assets

Tangible and intangible assets are subjected to impairment testing if there is any specific indication that there may be an impairment loss.

Goodwill, other intangible assets with an indefinite useful life and assets not available for use are tested for impairment at least annually or more frequently if there is any specific indication that they may be impaired.

Impairment testing consists of comparing the carrying amount of an asset with its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. To determine an asset's value in use, the entity calculates the present value of the estimated future cash flows on the basis of business plans prepared by management, before tax, applying a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is lower than its carrying amount, a loss is recognized in the Income Statement. If a loss recognized for an asset other than goodwill no longer exists or is reduced, the carrying amount of the asset or cash-generating unit is increased to the new estimate of recoverable value, which may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset. Reversals of impairment losses are immediately recognized in the income statement.

When the recoverable amount of the individual asset cannot be estimated, it is based on the cash generating unit (CGU) or group of CGUs that the asset belongs to and/or to which it may be reasonably allocated.

CGUs are identified on the basis of the company's organizational and business structure as homogeneous aggregations that generate independent cash inflows deriving from the continuous use of the assets allocated to them.

Environmental certificates: emission quotas and White Certificates

Different accounting policies are applied to quotas or certificates held for own use in the "Industrial Portfolio" and those held for trading purposes in the "Trading Portfolio".

Surplus quotas or certificates held for own use in the "Industrial Portfolio" which are in excess of the Group's requirements in relation to the obligations accruing at year end are recognized as other intangible assets at the actual cost incurred. Quotas or certificates assigned free of charge are recognized at a zero carrying amount. Given that they are assets for instant use, they are not amortized but subjected to impairment testing. The recoverable amount is the higher of value in use and market value. If, on the other hand, there is a deficit because the requirement exceeds the quotas or certificates in portfolio at the balance sheet date, a provision is recognized for the amount needed to meet the residual obligation, estimated on the basis of any purchase contracts, spot or forward, already signed at the balance sheet date; otherwise on the basis of market prices.

Quotas or certificates held for trading in the "Trading Portfolio" are recognized in inventories and measured at the lower of purchase cost and estimated realizable value based on market trends. Quotas or certificates assigned free of charge are recognized at a zero carrying amount. Market value is established on the basis of any sales contracts, spot or forward, already signed at the balance sheet date; otherwise on the basis of market prices.

Shareholdings in subsidiaries, associates and joint ventures

Subsidiaries are companies in which the parent company “is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee”, as defined by IFRS 10. Control is generally assumed to exist when a company holds either directly or indirectly more than half of the exercisable voting rights at an ordinary shareholders’ meeting, also considering potential voting rights, meaning voting rights deriving from convertible financial instruments.

Subsidiaries are consolidated on a line-by-line basis.

Associates are companies in which the parent has a significant influence over strategic decisions, despite not having control, also considering potential voting rights, meaning voting rights deriving from convertible financial instruments; significant influence is assumed to exist when A2A S.p.A. holds, either directly or indirectly, more than 20% of voting rights exercisable at an ordinary shareholders’ meeting.

A joint venture is a contractual agreement whereby two or more parties undertake an income generating activity subject to joint control.

Shareholdings in associates and joint ventures are accounted for in the consolidated financial statements using the equity method.

Long term construction contracts in progress

Construction contracts with durations exceeding one year in progress are valued in accordance with IFRS 15. In particular, over-the-time revenues are recognized if it can be demonstrated that: a) the customer simultaneously receives and consumes the benefits of the contract in force at the same time as the service is provided b) the service provided improves.

Construction contracts currently in progress are measured on the basis of the contractual fees that have accrued with reasonable certainty on the basis of the stage of completion, using the “cost to cost” method, so as to allocate the revenues and net result of the contract to the individual periods to which they belong in proportion to the progress being made on the project. Any difference, positive or negative, between the value of the contracts and advances received is recognized as an asset or a liability respectively.

In addition to the contractual fees, contract revenues include variants, price revisions and incentive awards to the extent that it is probable that they represent actual revenues that can be reliably determined. Ascertained losses are recognized independently of the stage of completion of contracts.

Inventories

Inventories of materials and fuel are measured at the lower of weighted average cost and market value at the balance sheet date. Weighted average cost is determined for the period of reference for each inventory code. Weighted average cost includes any additional costs (such as sea freight, customers charges, insurance and lay or demurrage days in the purchase of fuel). Inventories are constantly monitored and, where necessary, obsolete stocks are written down with a charge to the Income Statement.

Financial instruments

They include shareholdings (excluding shareholdings in subsidiaries, joint ventures and associates) held for trading (so-called trading shareholdings) or available for sale, non-current receivables and loans and other non-current financial assets, trade and other receivables deriving from company operations and other current financial assets such as cash and cash equivalents. The latter consist of bank and postal deposits, readily negotiable securities used as temporary investments of surplus cash and financial receivables due within three months. Financial instruments also include financial payables (bank loans and bonds), trade payables, other payables and other financial liabilities and derivatives.

Financial assets and liabilities are recognized at the time that the contractual rights and obligations forming part of the instrument arise.

Financial assets and liabilities are accounted for in accordance with IFRS 9 “Financial Instruments”.

Financial assets

Initial recognition

Financial assets are classified into two categories alone - “at fair value” or “at amortized cost”. Classification within the two categories is carried out on the basis of an entity’s business model and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if both of the following requirements are met: the objective of the entity’s business model is to hold assets to collect contractual cash flows (and therefore in substance not to earn trading profits) and the characteristics of the cash flows of the asset are solely payments of principal and interest. A financial asset is measured at fair value if it is not measured at amortized cost.

All equity instruments both listed and unlisted – must be measured at fair value.

An entity has the option of presenting changes in the fair value of equity instruments that are not held for trading in equity; that option is not permitted for equity instruments that are held for trading. This designation is permitted on initial recognition, may be adopted for each individual instrument and is irrevocable. If an election is made for this option, changes in the fair value of these instruments may never be reclassified from equity to the income statement. Dividends on the other hand continue to be recognized in the income statement.

In addition, the method of expected credit losses is modified, moving to an impairment model that leads to the early recognition of forward-looking losses.

Subsequent valuation

Measurement subsequent to initial recognition depends on which of the following categories the financial instrument falls into:

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value in the Income Statement with reclassification of cumulative gains and losses (debt instruments);
- Financial assets at fair value in the Income Statement without reversal of cumulative gains and losses at the time of derecognition (equity instruments);
- Financial assets at fair value in the Income Statement.

Financial assets at amortized cost

These are valued using the effective interest method and are subject to impairment. Gains and losses are recognized in the income statement when the asset is derecognized, modified or revalued.

Investments in equity instruments

On initial recognition, the Group may irrevocably choose to classify its equity investments as equity instruments recognized at fair value through profit and loss when they meet the definition of equity instruments pursuant to IAS 32 “Financial instruments: Presentation” and are not held for trading. The classification is determined for each individual instrument.

Gains and losses on these financial assets are never reclassified to the income statement. Dividends are recognized as other income in the income statement when the right to payment has been approved, except when the Group benefits from such income as a recovery of part of the cost of the financial asset, in which case such profits are recognized in OCI. Equity instruments recognized at fair value through OCI are not subject to impairment testing.

Financial assets measured at fair value through the income statement

This category includes assets held for trading, assets designated at the time of initial recognition as financial assets at fair value with changes recognized in the Income Statement, or financial assets that must be measured at fair value. Assets held for trading are all those assets acquired for sale or repurchase in the short term. Derivatives, including those separated, are classified as financial instruments held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not represented solely by principal and interest payments are classified and measured at fair value in the Income Statement, regardless of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be recognized at fair value in the Income Statement upon initial recognition if this results in the elimination or significant reduction of an accounting mismatch.

Financial instruments at fair value with changes recognized in the Income Statement are recognized in the statement of financial position at fair value and net changes in fair value are recognized in profit/(loss) for the year.

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This category includes derivative instruments and listed equity investments that the Group has not irrevocably chosen to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of profit/(loss) for the year when the right to payment is established.

The embedded derivative contained in a non-derivative hybrid contract, in a financial liability or in a principal non-financial contract, is separated from the principal contract and accounted for as a separate derivative, if: its economic characteristics and the risks associated with it are not closely correlated with those of the principal contract; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value in the Income Statement. Embedded derivatives are measured at fair value, with changes in fair value recognized in the Income Statement. A restatement occurs only when there is a change in the terms of the contract that significantly changes the cash flows otherwise expected or a reclassification of a financial asset to a category other than fair value in the Income Statement.

An embedded derivative included in a hybrid contract that contains a financial asset is not separated from the host contract. The financial asset together with the embedded derivative is classified entirely as a financial asset at fair value in the Income Statement.

Derecognition

A financial asset is derecognized when:

- the rights to receive cash flows from the asset no longer apply;
- the company has transferred to a third party the right to receive cash flows from the asset or has assumed a contractual obligation to transfer them. In substance, the transfer is completed when: the company has transferred all the risks and rewards of ownership of the asset or has transferred control of the asset while maintaining the related risks and rewards.

In cases where the company has transferred the rights to receive cash flows from an asset or signed an agreement under which it retains the contractual rights to receive the cash flows from the financial asset but assumes a contractual obligation to pay the cash flows to one or more beneficiaries (pass-through), it assesses whether and to what extent it has retained the risks and rewards of ownership. In the cases in which it has neither transferred nor retained substantially all of the risks and rewards or has not lost control of the asset, it continues to be recognized in the financial statements of the Group to the extent of its continuing involvement in the asset. In this case, the Group also recognizes an associated liability. The transferred asset and the associated liability are valued to reflect the rights and obligations that remain with the Group.

When the entity's continuing involvement is a guarantee of the transferred asset, involvement is measured on the basis of the lower of the amount of the asset and the maximum amount of consideration received that the entity might have to repay.

Financial liabilities

Financial liabilities are classified, at the time of initial recognition, at fair value in the Income Statement, as mortgages and loans or as derivatives designated as hedges.

Directly attributable transaction costs are added to the valuation.

The Group's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts and derivative financial instruments.

The subsequent evaluation depends on the classification of the main instrument:

- financial liabilities at fair value in the Income Statement, typically of a trading nature (settlement and transfer in the short term). This category includes financial derivatives held for trading (speculative);
- loans and receivables: valued at amortized cost using the effective interest method. Gains and losses are recognized in the Income Statement when the liability is settled, as well as through amortization.

A financial liability is derecognized when the obligation underlying the liability is settled or cancelled.

Derivative financial instruments and hedge accounting

These are initially recognized at fair value on the date the contract is signed and the subsequent measurement is also at fair value.

To classify a derivative as a hedge, the company formally designates and documents the hedging relationship, its risk management objectives and the strategy pursued.

From January 1, 2018, the following must be identified: a) the hedging instrument b) the nature of the risk being hedged c) the way in which the company will assess the effectiveness of the hedge.

The hedging relationship is effective if:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of the credit risk does not prevail over the changes in value resulting from the aforementioned economic relationship;
- the hedging ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge this quantity of hedged item.

Transactions that meet the above criteria are accounted for as follows:

Fair value hedging

If a derivative financial instrument is designated as a hedge against exposure to changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss resulting from subsequent changes in fair value of the hedging instrument is recognized in the Income Statement. The profit or loss deriving from the adjustment to fair value of the item hedged, for the part attributable to the hedged risk, changes the book value of this item and is recognized in the Income Statement. Cash flow hedge - If a derivative financial instrument is designated to hedge the exposure to the variability of the cash flows of an asset or a liability recognized in the Financial Statements or of a highly probable transaction, the effective portion of the resulting profits or losses deriving from the fair value adjustment of the derivative instrument is recognized in a specific equity reserve. The cumulative profit or loss is reversed from the equity reserve and recorded in the Income Statement in the same years in which the effects of the hedged transaction are recognized in the Income Statement. The gain or loss associated with that part of the ineffective hedge is recognised in the Income Statement immediately. If the hedged transaction is no longer considered probable, the unrealized gains or losses recognized in the equity reserve are immediately recognized in the Income Statement.

Cash flow hedges

The portion of gain or loss on the hedged instrument relating to the effective portion of the hedge is recognized in other comprehensive income in the cash flow hedge reserve, while the ineffective portion is recognized directly in the Income Statement. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged item.

Amounts accumulated under other components of the comprehensive income statement are recorded, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial component, the accumulated amount in equity is removed from the separate component of equity and included in the cost or other carrying amount of the asset or liability hedged. This is not considered a reclassification of the items recognized in OCI for the period. This also applies in the case of a hedged forecast transaction of a non-financial asset or a non-financial liability that subsequently becomes an irrevocable commitment to which fair value hedge accounting is applied.

For any other cash flow hedge, the amount accumulated in OCI is reclassified in the Income Statement as a reclassification adjustment in the same period or periods during which the hedged cash flows impact profit or loss.

If the cash flow hedge accounting is discontinued, the accumulated amount in OCI must remain so if the hedged future cash flows are expected to occur. Otherwise, the amount shall be immediately reclassified to profit or loss for the period as a reclassification adjustment. After suspension, once the hedged cash flow occurs, any accumulated amount remaining in OCI must be accounted for depending on the nature of the underlying transaction as described above.

Non-current assets held for sale, disposal groups and discontinued operations – IFRS 5

Non-current assets held for sale, disposal groups and discontinued operations whose carrying amount will be recovered principally through sale rather than continuous use are measured at the lower of their carrying amount and fair value less costs to sell. A disposal group is a group of assets to be disposed of together as a group in a single transaction together with the liabilities directly associated with those assets that will be transferred in that transaction. Discontinued operations on the other hand consist of a significant component of the Group such as a separate major line of business or a geographical area of operations or a subsidiary acquired exclusively with a view to resale.

In accordance with IFRSs, the figures for non-current assets held for sale, disposal groups and discontinued operations are shown on two specific lines in the balance sheet: non-current assets held for sale and liabilities directly associated with non-current assets held for sale.

Non-current assets held for sale are not depreciated or amortized and are measured at the lower of carrying amount and fair value less costs to sell; any difference between carrying amount and fair value less costs to sell is recognized in the income statement as a write-down.

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The net economic results arising from discontinued operations, and only discontinued operations, pending the disposal process, any gains or losses on disposal and the corresponding comparative figures for the previous year or period are recognized in a specific line of the Income Statement: "Net result from discontinued operations". On the other hand any gains or losses recognized as the result of measuring non-current assets (or disposal groups), classified as held for sale within the meaning of IFRS 5, at fair value less costs to sell are presented in a specific line item of the income statement "Result from non-recurring transactions", as discussed further in the previous section "Format of financial statements".

Employee benefits

The employees' leaving entitlement (TFR) and pension provisions are determined using actuarial methods; the rights accrued by employees during the year are recognized in the Income Statement as "labour costs", whereas the figurative financial cost that the company would have to bear if it were to ask the market for a loan of the same amount as the TFR is recognized as part of the "financial balance". Actuarial gains and losses arising from changes in actuarial assumptions are recognized in income statement taking into account the residual average working life of the employees.

Following the introduction of Finance Law no. 296 of December 27, 2006, only the portion of accrued employees' leaving entitlement that remained in the company has been measured in accordance with IAS 19, as amounts are now paid over to a separate entity as they accrue (either to a supplementary pension scheme or to funds held by INPS). As a result of these payments the company no longer has any obligations in connection with the services employees may render in the future.

Guaranteed employee benefits paid on or after the termination of employment through defined benefit plans (energy discount, health care or other benefits) or long-term benefits (loyalty bonuses) are recognized in the period when the right vests.

The liability for defined benefit plans, net of any plan assets, is determined by independent actuaries on the basis of actuarial assumptions and recognized on an accrual basis in line with the work performed to obtain the benefits.

Gains and losses arising from actuarial calculations are recognized in a specific equity reserve.

Reverse factoring

The Group entered into factoring agreements, typically in the technical form of reverse factoring. On the basis of the contractual structures in place, the supplier has the possibility to sell at its discretion, the receivables from the company to a lending institution. In some cases, the payment terms indicated in the invoice are the subject of further deferments agreed between the supplier and the Group; these deferments can be both burdensome and not burdensome.

In the event of extensions, a quantitative analysis is carried out to verify whether or not the contractual terms have been amended. In this context, the relations, for which the primary obligation is maintained with the supplier and the possible deferment, if granted, does not involve a substantial change in payment terms, retain their nature and are therefore classified as trading liabilities.

Provisions for risks, charges and liabilities for landfills

Provisions for risks and charges regard costs of a determinate nature and of certain or probable existence which at year-end are uncertain in terms of timing or amount. Provisions are recognized when there is a legal or constructive present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, and it is possible to make a reasonable estimate of the obligation.

Provisions are recognized at the best estimate of the amount that the company would have to pay to settle the liability or to transfer it to third parties at the balance sheet date. If the effect of discounting is significant, provisions are calculated by discounting expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money. If discounting is used the increase in the provision due to the passage of time is recognized as financial expense.

If the liability relates to tangible assets (such as the dismantling and reclamation of industrial sites), the initial provision is recognized as a counter-entry to the assets to which it refers; expense is then charged to income statement as the asset in question is depreciated.

Treasury shares

Treasury shares are accounted for as a deduction from equity. In particular, treasury shares are recognized as a negative equity reserve.

Grants

Grants, both from public entities and from third party private entities, are measured at fair value when there is the reasonable certainty that they will be received and that the Group will be able to comply with the terms and conditions for obtaining them.

Grants received to provide support for the cost of specific assets are recognized as a direct deduction from the assets concerned and credited to the income statement over the life of the depreciable asset to which they refer.

Revenue grants (given to provide the company with immediate financial support or as compensation for expenses or losses incurred in a previous accounting period) are recognized in their entirety in the income statement as soon as the conditions for recognizing the grants are met.

Revenues and costs

The recognition of revenues is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations, represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service; (v) recognition of the revenue when the relative performance obligation is satisfied, i.e. when the promised good or service is transferred to the customer; the transfer is considered completed when the customer obtains control of the good or service, which can occur continuously over time diluted and extended or at a point in time. Depending on the type of transaction, revenues are recognized on the basis of the following specific criteria:

- revenues for the sale and transport of electricity and gas are recognized at the time that the energy is supplied or the service rendered, even if invoicing has not yet taken place, and are determined by adding estimates of consumption to amounts resulting from pre- established meter-reading schedules. Where applicable, these revenues are based on the tariffs and related tariff restrictions in force during the year prescribed by the law and the Italian Regulation Authority for Energy Networks and Environment and similar foreign bodies;
- connection contributions paid by users, if not for costs incurred to extend the network, are recognized in the income statement on collection and presented as “revenues from services”;
- the revenues billed to users for an extension of the gas network are accounted for as a reduction in the carrying amount of tangible assets and are recognized in the income statement as a reduction in the depreciation charged over the useful life of the cost capitalized to extend the network;
- the revenues and costs involved in withdrawing quantities that are higher or lower than the Group’s share are measured at the prices envisaged in the related purchase or sale contract;
- revenues from the provision of services are recognized according to the stage of completion based on the same criteria as for contract work in progress. If it is impossible to calculate revenues on a reliable basis they are recognized up to the amount of the costs incurred providing they are expected to be recovered;
- revenues from the sale of certificates are recognized at the time of sale.

Revenues are stated net of returns, discounts, allowances and rebates, as well as directly related taxes. Expenses relate to goods or services sold or consumed during the year or as a result of systematic allocation; if no future use is envisaged they are recognized directly in the income statement.

Result from non-recurring transactions

The item “Non-recurring transactions” consists of the gains and losses arising from the measurement at fair value less costs to sell or from the sale or disposal of non- current assets (or disposal groups) classified as held for sale within the meaning of IFRS 5, the gains or losses arising on the disposal of shareholdings in unconsolidated subsidiaries and associates and other non-operating income and expense.

Financial income and expenses

Financial income is recognized when interest income arises using the effective interest method, i.e. at the rate that exactly discounts expected future cash flows over the expected life of the financial instrument. Financial expense is recognized in the Income Statement on an accrual basis on the basis of the effective interest.

Dividends

Dividend income is recognized when it is established that the shareholders have a right to receive payment, and is recognized as financial income in the Income Statement.

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Current taxes

Current income taxes are based on an estimate of taxable income in compliance with tax regulations in force or substantially approved at the balance sheet date, bearing in mind any exemptions or tax credits due. Account is also taken of the fact that the Group now files for tax on a consolidated basis.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax bases, with the exception of goodwill which is not deductible for tax purposes and any differences resulting from investments in subsidiaries which are not expected to reverse in the foreseeable future. The tax rates used are those expected to apply to the period when the temporary differences reverse. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the tax benefit will be realized. The measurement of deferred tax assets takes account of the period for which business plans are available.

When transactions are recognized directly in equity, any related current or deferred tax effects are also recognized directly in equity. Deferred taxes on the undistributed profits of Group companies are only provided for if there is the real intention to distribute such profits and, in any case, if the taxation is not offset as the result of filing a Group tax return.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Taxes are only offset when they are levied by the same tax authority, when there is the legal right of set-off and when settlement of the net balance is expected.

Use of estimates

Preparing the financial statements and notes requires the use of estimates and assumptions in determining certain assets and liabilities and measuring contingent assets and liabilities. The actual results after the event could differ from such estimates.

Estimates have been used in assessing the recoverability of assets, to determine certain sales revenues, in provisions for risks and charges, in provisions for receivables and other write-downs, amortization and depreciation, the valuation of derivatives, employee benefits and taxes. The underlying estimates and assumptions are regularly reviewed and the effect of any change is immediately recognized in the income statement.

The following are the key assumptions made by management as part of the process of making these accounting estimates. The inherently critical element of such estimates comes from using assumptions or professional opinions on matters that are by their very nature uncertain. Changes in the conditions underlying the assumptions and opinions used could have a material impact on subsequent results.

Impairment Test

The carrying amount of non-current assets (including goodwill and other intangible assets) and of assets held for sale is reviewed periodically and whenever circumstances or events require a more frequent assessment. If it is considered that the book value of a group of fixed assets has had an impairment loss, it is subject to the application of professional judgement by management and is based on assumptions that include: the identification of the Cash Generating Units, the estimate of the future operating cash flows associated with these CGUs during the reference period of the 2021 - 2030 business plan, the estimate of the cash flows subsequent to this time horizon, the cash flow deriving from the disposal at the end of useful life of the assets, discount rates used ("Wacc"). These assumptions are complex due to their nature and imply recourse to the opinion of the directors, who are also sensitive to future trends in energy markets, macroeconomic scenarios, and the resolutions of ARERA.

For the purpose of preparing the impairment test, the company avails itself of the support of an independent expert, external to the A2A Group.

In the hypothesis in which the recoverable value is lower than the carrying amount, the latter is written down to the extent applicable. Management is of the opinion that the estimates of such recoverable amounts are reasonable, albeit subject to changes in the factors underlying the estimates on which these recoverable amounts have been calculated could produce different measurements. For further details on the way in which impairment testing was carried out and the results of such testing, reference is made to the specific paragraph.

Revenue recognition

Revenues from sales include the estimate of accrued revenues related to gas and electricity consumed by customers and not yet subject to periodic reading at December 31, 2020 and the estimate of revenues accrued for gas and electricity consumed by customers and not yet billed at December 31, 2020, in addition to the revenues already billed to customers based on the periodic consumption readings made during the year. The processes and methods for evaluating and determining these estimates are based on sometimes complex assumptions that by their nature imply recourse to the opinion of the directors, in particular with regard to recognition of accrued revenues, as the methods used by the A2A Group to estimate the quantities of consumption between the date of the last reading and December 31, and therefore to value the revenues accrued during the year, are based on assumptions and complex calculation algorithms that concern various information systems. Furthermore, the estimate of consumption not subject to periodic reading is made by taking as reference the historical profile of each user, adjusted on the basis of climatic correction factors provided by the Regulation Authority for Energy Networks and the Environment (also "ARERA"), to incorporate other variables that can have an impact on consumption.

Provisions for risks and charges

In certain circumstances it is not easy to identify whether a legal or constructive present obligation exists. The directors assess these situations case by case, together with an estimate of the economic resources required to settle the obligation. Estimating such provisions is the result of a complex process that involves subjective judgements on the part of company management. When the directors are of the opinion that it is only possible that a liability could arise, the risks are disclosed in the section on commitments and contingent liabilities without making any provision.

Liabilities for landfills

The liabilities for landfills provision represents the amount set aside to meet the costs which will be incurred for the management of the period of closure and post-closure of landfills currently in use. The future outlays, calculated for each landfill by a specific appraisal updated annually, were discounted in accordance with the provisions of IAS 37.

Bad debts provision

The entry into force of IFRS 9 on January 1, 2018 has led to a change in the recognition of credit losses for the Group. The approach adopted is a forward-looking one, focusing on the probability of future losses on receivables, even in the absence of events that would suggest the need to write-down a credit position (Expected Losses). Although the provision is considered adequate, the use of different assumptions or changes in prevailing economic conditions, even more so in this period of recession, could give rise to adjustments to the bad debts provision.

Amortization

Depreciation and amortization charges are a significant cost for the company. Non-current assets are depreciated or amortized on a straight-line basis over the useful lives of the assets. The useful lives of the company's non-current assets are established by the directors, with the assistance of expert appraisers, when they are purchased. The company periodically reviews technological and sector changes, dismantling/closure charges and the recovery amount of assets to update their residual useful lives. This periodic update could lead to a change in the period of depreciation or amortization and hence also in the depreciation or amortization charge in future years.

Measurement of derivative instruments

The derivatives used are measured at fair value based on the forward market curve at the balance sheet date, if the underlying of the derivative is traded on markets that provide official, liquid forward prices. If the market does not provide forward prices, forecast price curves are used based on simulation models developed by Group companies internally. However, the actual results of derivatives could differ from the measurements made. The serious turbulence on markets for the energy commodities traded by the company, as well the fluctuations in exchange and interest rates, could lead to greater volatility in cash flows and in expected results.

Employee benefits

The calculations of expenses and the related liabilities, estimated by independent experts, are based on actuarial assumptions. The full effects of any changes in these actuarial assumptions are recognized in a specific equity reserve.

Business combinations

Accounting for business combinations entails allocating the difference between purchase cost and net carrying amount to the assets and liabilities of the acquired business. For the majority of assets and liabilities this difference is allocated by recognizing the assets and liabilities at fair value. If positive, the unallocated portion is recognized as goodwill. If negative, it is recognized in the income statement. A2A S.p.A. bases its allocations on available information and, for the more significant business combinations, on external appraisals.

Current taxes and future recovery of deferred tax assets

The uncertainties that exist regarding the way of applying certain tax regulations have led the company to taking an interpretative stance when providing for current taxes in the financial statements; such interpretations could be overturned by official clarifications on the part of the tax authorities.

Deferred tax assets are accounted for on the basis of the taxable profit expected to be available in future years. Assessing the expected taxable profit for the purpose of accounting for deferred taxation depends on factors that can vary over time, and may lead to significant effects on the measurement of deferred tax assets.

3.9 Business Units

The A2A Group operates in the production, sale and distribution of gas and electricity, district heating, environmental services and the integrated water cycle.

These sectors are in turn attributable to the “Business Units” specified in the following scheme identified following the reorganization made by management:

Generation and Trading

- Thermoelectric, hydroelectric and other renewable plants
- Energy Management

Market

- Sale of Electricity and Gas
- Energy efficiency
- Electric mobility
- Public lighting

Waste

- Waste collection and street sweeping
- Treatment
- Disposal and energy recovery

Networks

- Electricity networks
- Gas networks
- Integrated water cycle
- District Heating services
- Heat management services
- Development and management of technological infrastructures for integrated digital services

Corporate

- Corporate services

This breakdown into Business Units reflects the organization of financial reports regularly analyzed by management and the Board of Directors in order to manage and plan the Group's business.

3.10 Results sector by sector

	GENERATION AND TRADING		MARKET	
millions of euro	01 01 2020 12 31 2020	01 01 2019 12 31 2019	01 01 2020 12 31 2020	01 01 2019 12 31 2019
Revenues	3,828	4,399	2,598	2,724
- of which inter-sector	1,213	1,343	102	158
Labour costs	86	88	56	55
Gross operating income - EBITDA	270	301	220	229
% of revenues	7.1%	6.8%	8.5%	8.4%
Depreciation, amortization, provisions and write-downs	(170)	(36)	(63)	(60)
Net operating income - EBIT	100	265	157	169
% of revenues	2.6%	6.0%	6.0%	6.2%
Result from non-recurring transactions				
Financial balance				
Result before taxes				
Income taxes				
Result after taxes from operating activities				
Net result from discontinued operations				
Minorities				
Group result of the year				
Gross investments (1)	76	88	64	35

(1) See the items “Capex” in the schedules on tangible and intangible assets presented in Notes 1 and 2 to the balance sheet.
It should be noted that the income statement data from January 1 to December 31, 2019 have been reallocated to make them homogeneous to the results by “Business Unit” from January 1 to December 31, 2020.

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	WASTE		NETWORKS		CORPORATE		ELIMINATIONS		INCOME STATEMENT	
	01 01 2020 12 31 2020	01 01 2019 12 31 2019	01 01 2020 12 31 2020	01 01 2019 12 31 2019	01 01 2020 12 31 2020	01 01 2019 12 31 2019	01 01 2020 12 31 2020	01 01 2019 12 31 2019	01 01 2020 12 31 2020	01 01 2019 12 31 2019
	1,111	1,050	1,101	1,143	264	244	(2,040)	(2,236)	6,862	7,324
	133	144	343	361	249	230	(2,040)	(2,236)		
	326	312	106	109	131	136			705	700
	282	268	456	472	(24)	(36)			1,204	1,234
	25.4%	25.5%	41.4%	41.3%	(9.1%)	(14.8%)			17.5%	16.8%
	(171)	(160)	(209)	(261)	(41)	(30)			(654)	(547)
	111	108	247	211	(65)	(66)			550	687
	10.0%	10.3%	22.4%	18.5%	(24.6%)	(27.0%)			8.0%	9.4%
									-	4
									(81)	(110)
									469	581
									(99)	(189)
									370	392
									(2)	1
									(4)	(4)
									364	389
	174	97	378	368	51	45	(5)	(6)	738	627

	GENERATION AND TRADING		MARKET	
millions of euro	12 31 2020	12 31 2019	12 31 2020	12 31 2019
Tangible assets	2,099	2,091	92	52
Intangible assets	85	79	311	210
Trade receivables and current financial assets	1,014	706	887	815
Trade payables and current financial liabilities	1,003	838	570	514

It should be noted that the balance sheet data at December 31, 2019 have been reallocated to make them homogeneous to the results by "Business Unit" at December 31, 2020.

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	WASTE		NETWORKS		CORPORATE		ELIMINATIONS		TOTAL GROUP	
	12 31 2020	12 31 2019	12 31 2020	12 31 2019	12 31 2020	12 31 2019	12 31 2020	12 31 2019	12 31 2020	12 31 2019
	908	727	1,980	1,906	229	207	(146)	(114)	5,162	4,869
	66	55	2,197	1,938	146	148	(68)	(51)	2,737	2,379
	413	363	429	433	232	217	(934)	(672)	2,041	1,862
	354	308	448	422	697	380	(932)	(677)	2,140	1,785

3.11 Notes to the balance sheet

Note that the consolidation perimeter at December 31, 2020 has changed with respect to December 31, 2019 due to the following transactions:

- acquisition by LGH S.p.A. and line-by-line consolidation of Agritre S.r.l., Tre Stock S.r.l. and Fragea S.r.l., companies operating in the biomass generation segment;
- acquisition by A2A Rinnovabili S.p.A. and line-by-line consolidation of 100% of Flabrum S.r.l. and Solar Italy V S.r.l., companies operating in the sector of power generation from renewable sources;
- line-by-line consolidation of ASM Energia S.p.A., a company operating on the gas and electricity sale market, starting February 1, 2020;
- incorporation by A2A S.p.A. and line-by-line consolidation of A2A Telecommunications S.r.l., telecommunication services company;
- line-by-line consolidation of the AEB Group as of November 1, 2020. The consolidated amounts reflect the effects of the purchase price allocation required by IFRS 3.

Lastly, the following equity investments were reclassified to “Non-current assets held for sale”:

- the investment held by A2A Energy Solutions S.r.l. in Consul System S.p.A., previously consolidated on a line-by-line basis, has been reclassified as a result of the sale of 26% of the shares, which was completed at the end of January 2021;
- the investment held by A2A S.p.A. in Ge.S.I. S.r.l., previously consolidated using the equity method, has been reclassified following the exercise of the put option, signed on November 23, 2020, on the entire investment.

ASSETS

NON-CURRENT ASSETS

1) Tangible assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect	Changes during the year					Balance at 12 31 2020
			Invest.	Other changes	Disposals and sales	Write- down/ Reversal	Amort.	Total changes
Land	112	13	3				(1)	2
Buildings	594	22	10	4	(2)		(31)	(19)
Plant and machinery	3,591	138	165	191	(2)		(295)	59
Industrial and commercial equipment	45	2	11	1			(9)	3
Other assets	127	4	17	6	(1)		(31)	(9)
Landfills	28			3		(2)	(3)	(2)
Construction in progress and advances	131	3	221	(127)		(2)		92
Leasehold improvements	101		24	4			(16)	12
Assets for rights of use	140	10		(10)			(27)	(37)
Total	4,869	192	451	72	(5)	(4)	(413)	101
of which:								
Historical cost	11,065	192	451	34	(39)			446
Accumulated amortization	(5,376)			38	34		(413)	(341)
Write-downs	(820)					(4)		(4)

“Tangible assets” amounted to 5,162 million euro at December 31, 2020 (4,869 million euro at December 31, 2019) and include the first-time consolidation effect of 192 million euro.

The changes for the year, net of the above effect, recorded an increase of 101 million euro as follows:

- increase of 451 million euro for capex in the year as further described below;
- net increase of 72 million euro in other changes is the net result of increases in the decommissioning provision and landfill closure and post-closure expenses for 46 million euro, increases in rights of use in accordance with IFRS 16 for 20 million euro, advances to suppliers for 3 million euro, reclassifications from intangible assets to property, plant and equipment for 4 million euro and decreases for 1 million euro, due to reclassifications to other items in the financial statements;
- decrease of 5 million euro arising from disposals in the year, net of accumulated depreciation;
- decrease of 4 million euro due to write-downs in the year;
- decrease of 413 million euro for the amortization charge for the year.

Capex may be analyzed as follows:

- capex in the Networks Business Unit totalled 176 million euro and concerned: 110 million euro for the development and maintenance of electricity distribution plants, the extension and reconstruction of the medium and low-voltage network and the installation of new electronic meters; 50 million euro for the development of district heating networks; 12 million euro for work on the fiber optic network and equipment, as well as 2 million euro for work on the gas transport network and 2 million euro for investments in the Lecco building;
- capex in the Waste Business Unit amounted to 168 million euro and refer to: 140 million euro for work on the Group’s waste treatment and disposal plants; 21 million euro for the acquisition of mobile means for waste collection and 7 million euro for the acquisition of collection facilities;
- capex in the Generation and Trading Business Unit increased 70 million euro and concerned: 52 million euro capex on thermoelectric plants, 14 million euro capex on hydroelectric plants, and 4 million euro capex on renewable energy plants;
- capex in the Market Business Unit increased 24 million euro and concerned: 10 million euro for the efficiency plan with new led technology light sources, 11 million euro for the energy efficiency plan at customer premises and 3 million euro for work on the electric vehicle recharging network;
- capex in the Corporate Business Unit amounting to 13 million euro mainly concerned work on buildings in the Milan, Como, Brescia areas and the new Cremona Technology Center.

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Tangible assets include “Assets for rights of use” totalling 113 million euro (140 million euro at December 31, 2019), recognized in accordance with IFRS 16 and for which the outstanding payable to lessors at December 31, 2020 amounted to 110 million euro (141 million euro at December 31, 2019). Below is a breakdown of “Assets for rights of use” of use deriving from operating and financial leases at December 31, 2020:

Assets consisting of rights of use millions of euro	Balance at 12 31 2019	First-time consolid. effect 2020	Changes during the year			Balance at 12 31 2020
			Other changes	Amort.	Total changes	
Land	17	2	1	(3)	(2)	17
Buildings	44	7	(22)	(10)	(32)	19
Plant and machinery	34			(1)	(1)	33
Industrial, commercial equipment and other goods	24	1	6	(3)	3	28
Vehicles	21		5	(10)	(5)	16
Total	140	10	(10)	(27)	(37)	113

It is specified that the Group has made use of the option provided for in paragraph 6 of the standard not to apply the provisions of paragraphs 22 to 49 of the standard to the following categories:

- a) short-term leases;
- b) leases whose underlying assets are of low value.

It should be noted that the amendment to IFRS 16, issued in June 2020, with the objective of neutralizing the effect of the restatement of the value of the right of use and the related financial liability as a result of suspension/reduction of lease/rental fees as a result of the COVID-19 pandemic, did not have an impact on the Group as it was not necessary to reach agreements to this effect.

With regard to large-scale diversion hydroelectric concessions, it is noted that when they are converted into law (Law no. 12/2019) with amendments to Decree Law December 14, 2018, no. 135 (“Competitiveness Decree Law”), the Legislator intervened in article 11-quater with overall review of the regulations governing large-scale diversion hydroelectric concessions (> 3 MW), as explained in greater detail in paragraph “Regulatory Changes and Impacts on the Business Units of the A2A Group - Generating and Trading Business Unit”. The Group is continuing to analyze the impact of regulatory amendments, also in light of the new regulations issued in 2020, and confirms, to date, that the amounts recognized in the financial statements for dry and wet works related to hydroelectric concessions are prudent and recoverable also in accordance with the new regulations.

2) Intangible assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect	Changes during the year						Balance at 12 31 2020
			Invest.	Recl./ Other changes	Disposals/ Sales	Write- downs	Amort.	Total changes	
Industrial patents and intellectual property rights	31		14	14			(19)	9	40
Concessions, licences, trademarks and similar rights	1,616	131	195	39	(6)	(1)	(98)	129	1,876
Goodwill	374	61		(9)				(9)	426
Assets in progress	62		70	(58)				12	74
Other intangible assets	296	56	8	(14)			(25)	(31)	321
Total	2,379	248	287	(28)	(6)	(1)	(142)	110	2,737

“Intangible assets” amounted to 2,737 million euro at December 31, 2020 (2,379 million euro at December 31, 2019) and include the first-time consolidation effects of 248 million euro.

Through the application of IFRIC 12, from financial year 2010 intangible assets also include assets in concession, which relate to gas distribution and the integrated water cycle.

The changes for the year, net of the above effect, recorded an overall increase of 110 million euro as follows:

- increase of 287 million euro for capex in the year as further described below;
- net decrease of 28 million euro for other changes due to the decrease in environmental certificates of the industrial portfolio for 15 million euro and the decrease of 13 million euro for reclassifications to other items in the financial statements;
- decrease of 6 million euro (net of the related accumulated amortization/depreciation) due for 2 million euro to the sale to Italgas Reti S.p.A. of the business unit relative to the management of the network and natural gas distribution service in the municipalities falling within the territorial area (Atem) Alessandria 4 and for 4 million euro related to disposals in the year;
- decrease of 1 million euro due to write-downs in the year;
- decrease of 142 million euro for the amortization charge for the year.

Capex of “Intangible assets” relate to the following:

- capex in the Networks Business Unit of 197 million euro are: for development and maintenance work on the plants of the gas distribution segment and the replacement of low and medium pressure underground piping for 98 million euro; work on the water transport and distribution network, on the sewage networks and on the purification plants for 69 million euro; development and maintenance of plants in the electricity distribution area for 2 million euro; contracting costs for the Heat Plants of the Milan area and development of the district heating network in the Varese area for 2 million euro, as well as the implementation of information systems for 26 million euro;
- capex in the Market Business Unit increased 40 million euro due to the implementation of information systems for 34 million euro, the acquisition of the customer portfolio of Yada Energia S.r.l. for 4 million euro and the capitalization of costs incurred to manage customer contracts in accordance with IAS IFRS 15 for 2 million euro;
- for the Corporate Business Unit, the increase was 38 million euro mainly due to the implementation of information systems;
- for the Generation and Trading Business Unit, the increase was 6 million euro and concerned the implementation of information systems;
- for the Waste Business Unit, the increase was 6 million euro and mainly concerned the implementation of information systems.

“Other intangible assets” include Customer Lists arising on the acquisition of customer portfolios by Group companies. These values are amortized based on an estimate of the benefits that will arise in future years, taking into account indicators such as the retention rate and churn rate relating to specific types of customers. In particular, the amount of 232 million euro in the financial statements is attributable as follows: 106 million euro to the ACSM-AGAM Group, 43 million euro to the AEB Group, 40 million euro to A2A Energia S.p.A., 15 million euro to A2A Recycling S.r.l., 11 million euro to Electrometal S.r.l., 10 million euro to ASM Energia S.p.A. and 7 million euro to Yada Energia S.r.l., Suncity Energy S.r.l., Aprica S.p.A. and LumEnergia S.p.A..

Impairment testing in accordance with IAS 36 on the carrying amount of goodwill and tangible and intangible fixed assets

The objective of the impairment test required by IAS 36 is to ensure that the carrying amount of assets does not exceed their recoverable value.

Impairment testing is carried out whenever there is an indication that an asset may be impaired, while goodwill, which is not amortized on a systematic basis, must be tested for impairment at least on an annual basis, regardless of whether there is any indication of impairment.

A Cash Generating Unit (CGU) is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The definition of a CGU depends essentially on the type of activity carried out by the CGU, the business sector in which it operates and a company's organizational structure.

The impairment test consists of comparing the carrying amount of an asset/cash generating unit (or group of cash generating units) with an estimate of the recoverable value of that asset/cash generating unit (or group of cash generating units). The recoverable value of an asset/cash generating unit (or group of cash generating units) is the higher of its fair value less costs to sell and its value in use.

The fair value less costs to sell of an asset/cash generating unit (or group of cash generating units) is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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The value in use of an asset/cash generating unit (or group of cash generating units) is the present value of the future cash flows expected to be derived from the continuing use of an asset or cash generating unit and from its ultimate disposal. Value in use has been calculated using the discounted cash flow method, which is based on estimating future cash flows and discounting these by applying the appropriate discount rate.

Management made a projection of the future cash flows deriving from each asset/cash generating unit (or group of cash generating units) on the basis of reasonable and supportable assumptions which reflect the value of the asset/cash generating unit (or group of cash generating units) in its present condition and with a view to maintaining the normal conditions of business activities.

On January 19, 2021, the A2A Board of Directors approved a ten-year plan, which indicates the new strategy functional both to the A2A repositioning from a multi-utility to a "Life Company" and to the pursuit of the Sustainable Development Goals of the UN Agenda 2030.

In particular, the Plan is based on two main trends, Circular Economy and Energy Transition, to which all the Group's business units contribute: in the coming years, objectives will be pursued mainly aimed at recovering waste heat, reducing water losses, closing the waste cycle, decarbonization and electrification of consumption.

The main elements of discontinuity of the new Ten-Year Plan compared to the previous business strategy are outlined below:

- 16 billion capex over 10 years, of which 6 billion for the Circular Economy and 10 billion for Energy Transition;
- 90% of capex in line with the UN Sustainable Development Goals;
- EBITDA more than doubled to over 2.5 billion euro at the end of the plan;
- net profit growth of more than 8% on average per year (CAGR 2020-2030);
- minimum dividends expected to rise steadily;
- 47% reduction in CO₂ emission factor;
- installed capacity from renewable sources tripled, amounting to 5.7 GW at the end of the plan;
- strengthening and enhancing the value of gas-fired electricity generation, including through the start-up of at least one new high-efficiency CCGT plant, already prepared for blending with hydrogen;
- increased material and energy recovery;
- 6,000 direct hires;
- reduction of water losses;
- recovery of waste heat by connecting the Cassano d'Adda plant to the Milan district heating network;
- installation of over 6,000 charging points for electric vehicles;
- activation of 200 thousand contracts for recharging services;
- sale of more than 50 thousand domestic recharging points for home use;
- increased customer base through liberalization, digitalization and nationwide expansion.

For the sole purpose of the impairment test, the 2021-2030 Strategic Plan, in line with the provisions of IAS 36 paragraph 33¹, has been appropriately amended to exclude the impact of future improvements and optimizations, as described in more detail below. In particular, the calculation of value in use excludes the amounts of EBITDA and CAPEX relating to extraordinary transactions/M&A and developments in the planning stage, such as, for example, improvements to the electricity and gas networks, the construction of new waste-to-energy plants, the new connection between the Cassano d'Adda power plant and the Milan district heating network, as well as the increase in the capacity of the CCGT plants.

In addition, also in accordance with IAS 36 paragraph 33, it should be noted that:

- already in the past, some of the Cash Generating Units included in the test, which are subject to multi-year concessions or Integrated Environmental Authorizations - IEA (Reti Elettriche Cash Generating Unit, Calore Cash Generating Unit, Ambiente Cash Generating Unit, Reti Gas Cash Generating Unit, Monfalcone Cash Generating Unit, San Filippo Cash Generating Unit), were valued taking into account, either directly or exclusively, a time horizon longer than five years, consistent with the remaining term of the concession or asset included in each Cash Generating Unit. The existence of a ten-year plan approved by management made it possible to obtain an estimate of the value in use of these Cash Generating Units that was more closely linked to management's actual expectations rather than based on an extrapolation of cash flows beyond the explicit forecast period, which in past years was five years;

¹ Which requires "(b) basing cash flow projections on the most recent budget/forecast approved by management, however excluding any future cash inflows or outflows estimated to arise from future restructuring or improvements or optimizations in business performance. Projections based on these budgets/forecasts must cover a maximum period of five years, unless a longer time frame can be justified".

- in the case of Cash Generating Units that are valued considering indefinite useful life (either exclusively, as is the case for the Energia Elettrica Cash Generating Unit and the Gas Cash Generating Unit, or concurrently with definite useful life scenario, as is the case for the Calore Cash Generating Unit and the Reti Elettriche Cash Generating Unit), the presence of a ten-year plan provides a better understanding of long-term trends (e.g., electrification of consumption, decarbonization) and their impact on expected flows: in fact, thanks to the 10-year plan, it is possible to have greater visibility both over the explicit period and the estimate of the long-term sustainable flow to be used to estimate perpetuity. Also in this case, the result is a value in use that better reflects management's forecasts and current macroeconomic trends.

In addition, for the Energia Elettrica, Gas, Calore, Reti Elettriche, Reti Gas CGUs, a sensitivity analysis was also performed using a five-year plan horizon (2021-2025), without finding significant differences compared with the results obtained using the ten-year plan.

In addition, as explained in greater detail in the section of the Report on Operations entitled "Health Emergency COVID-19 Virus and Effects of the pandemic on the annual results and the value of assets (IAS 36)" to which reference is made, for the purposes of applying IAS 36, in addition to the internal and external impairment indicators that are normally monitored, consistent with the approach followed in the past year, the Group proceeded to assess, based on available information, the effect of the spread of the COVID-19 pandemic on the recoverable value of the CGUs subject to impairment testing at December 31, 2020. An independent expert was engaged to carry out the impairment testing; among other things, the expert analyzed the components and key assumptions included in the economic and financial projections prepared by the Group's management, performed comparisons and tests as to the correctness of the sources and assumptions used and developed the assumptions about the growth rate beyond the plan's horizon to be used for calculating normalized flows through to the end of the useful lives of the plants. Consistently with the indications of IAS 36, the management team will continue to monitor the evolution of the macro-economic conditions and all other impairment indicators, promptly incorporating changes in value of the CGUs or assets, as, moreover, has been done in recent years.

Finally, the discount rate consistent with the cash flows considered, i.e. post-tax weighted average cost of capital (WACC). In detail, the WACC rate used, estimated to reflect current market valuations with reference to the current value of money and the specific risks associated with the asset, derives from the "unconditional" approach, according to the criteria considered by Prof. Damodaran's study centre, widely used in valuation practice and consistent with last year's impairment.

The WACC unconditional methodology provides for the use of a risk-free rate that incorporates country risk.

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Goodwill

At December 31, 2020, goodwill amounted to 426 million euro:

millions of euro	Balance at 12 31 2019	Changes during the year					Balance at 12 31 2020
		Reclassific.	First-time consolid. acquis. 2019	PPA Effect	Write- downs	Total changes	
CGU:							
A2A Reti Elettriche	-					-	-
A2A Ambiente	264			5		5	269
A2A Reti Gas	41					-	41
A2A Gas	31					-	31
A2A Calore	22					-	22
Energia Elettrica	1					-	1
Total	359	-	-	5	-	5	364
First-time Consolidation Effects							
AEB Group	-		50			50	50
Flabrum e Solar Italy V	-		12			12	12
Electrometal	15	(10)		(5)		(15)	-
Total	15	(10)	62	(5)	-	47	62
Total Goodwill	374	(10)	62	-	-	52	426

The effect of the first-time consolidation relating to the acquisition of Flabrum S.r.l. and Solar Italy V S.r.l., companies operating in the sector of electricity generation from renewable sources, determined the provisional recognition of goodwill of 12 million euro pending completion of the Purchase Price Allocation as better described in the paragraph “Other information” 3) Transactions IFRS 3 Revised.

The combination of the AEB Group on November 1, 2020 resulted in the completion of the Purchase Price Allocation process, with the consequent valuation of assets and liabilities, including a customer list for 43 million euro, a residual unallocated item recognized as goodwill for 50 million euro. In 2021, this goodwill will be allocated to the various CGUs and will be tested for impairment in the next financial year.

In accordance with IFRS 3, the Group, with reference to the acquisition of Electrometal S.r.l. in the previous year, completed the Purchase Price Allocation process by allocating a portion of the goodwill provisionally recognized at December 31, 2019, amounting to 15 million euro, to other intangible assets for 10 million euro. The balance of 5 million euro was allocated as goodwill to the Waste CGU.

Reference is made to the paragraph “Other information” for further details on acquisitions regulated by IFRS 3 and Purchase Price Allocation processes.

Since goodwill does not generate independent cash flows and cannot be sold separately, the impairment testing of recognized goodwill is carried out in a residual manner by referring to the Cash Generating Unit (or group of Cash Generating Units) to which it may be reasonably allocated.

The following table sets out the goodwill allocated to each individual Cash Generating Unit, specifying for each the recoverable value and the discount and growth rates used with comparative figures of the previous year.

CGU with Goodwill	Value in millions of euro at 12 31 2020	Recoverable value	WACC 2020 post-tax (1)	Growth rate g 2020	Balance scenario (2)	
					WACC of reference (3)	Growth rate g
A2A Ambiente	269	Value in use	6.0%	1.0%	9.9%	1.0%
A2A Reti gas	41	Value in use	5.6%	0.0%	5.8%	0.0%
A2A Gas	31	Value in use	6.2%	0.0%	25.3%	0.0%
A2A Calore	22	Value in use	5.3%	1.0%	5.5%	1.0%
Energia Elettrica	1	Value in use	6.4%	0.0%	6.4%	0.0%
Total	364					

- (1) Nominal post-tax discount rate applied to future cash flows.
(2) Rates resulting from the sensitivity assessment made by the expert in order to achieve balance between the use values and carrying amounts subjected to impairment testing.
(3) The simulation was performed on the WACC rate of reference, with the simultaneous adjustment of the terminal flow rate (if applicable).

CGU with Goodwill	Value in millions of euro at 12 31 2019	Recoverable value	WACC 2019 post-tax (1)	Growth rate g 2019	Balance scenario (2)	
					WACC of reference (3)	Growth rate g
A2A Reti Elettriche	-	Value in use	5.3%	0.0%	4.7%	0.9%
A2A Ambiente	264	Value in use	6.2%	1.0%	13.3%	0.0%
A2A Reti gas	41	Value in use	5.6%	0.0%	8.3%	0.0%
A2A Gas	31	Value in use	6.4%	0.0%	25.9%	0.0%
A2A Calore	22	Value in use	5.6%	1.0%	5.9%	0.6%
Energia Elettrica	1	Value in use	6.6%	0.0%	7.2%	0.0%
Total	359					

- (1) Nominal post-tax discount rate applied to future cash flows.
(2) Rates resulting from the sensitivity assessment made by the expert in order to achieve balance between the use values and carrying amounts subjected to impairment testing.
(3) The simulation was performed on the WACC rate of reference, with the simultaneous adjustment of the terminal flow rate (if applicable).

With reference to the CGU already included in the scope of consolidation of the A2A Group at December 31, 2020, and precisely “A2A Calore” CGU, “A2A Reti Gas” CGU, “A2A Reti Elettriche” CGU, “A2A Ambiente” CGU, “A2A Gas” CGU and “Energia Elettrica” CGU, the analysis conducted allowed achieving the estimated recoverable value at December 31, 2020 calculated using the financial method. In particular, the analysis regarding the maintenance of the value of the CGUs was carried out as follows:

- for the “A2A Calore” and “A2A Reti Elettriche” CGUs, was conducted by comparing the recoverable value determined as fair-weighted average of the values in use of the definite useful life scenario (consistent with the average duration of the concessions in place) and the indefinite useful life scenario;
- for the “A2A Reti Gas” CGU and the “A2A Ambiente” CGU, the analysis was carried out by comparing the recoverable value for the definite useful life scenario only;
- for the “A2A Gas” CGU and for the “Energia Elettrica” CGU, the analysis was carried out by comparing the recoverable value for the indefinite useful life scenario only.

Further analyses and sensitivity analyses were conducted considering the potential effects of the changes in the reference parameters of the growth rate and WACC, which showed no particular criticality for all the CGUs subject to impairment testing.

“A2A Reti Elettriche” Cash Generating Unit

The “A2A Reti Elettriche” CGU includes the Group’s electricity distribution and metering activities. In particular, it deals with the design and construction of electricity networks, their operation and maintenance, as well as the management of requests for connection and quality control and continuity of service.

It is recalled that the goodwill associated with this CGU at December 31, 2019 amounted to 85 million euro and had been written down as a result of impairment testing. The goodwill derived from the acquisition of the business units of Enel Distribuzione S.p.A. in 2002 by A2A Reti Elettriche S.p.A. (amounting to 81 million euro) and from the agreements for activities on the public lighting systems of

the Municipality of Bergamo (amounting to 4 million euro), following the merger between BAS S.p.A. and A2A S.p.A..

The value in use of this CGU was determined as the average of the values in use obtained from two scenarios: one based on an estimate of definite useful life (equal to the expiration of the existing concessions) and the other based on an estimate of indefinite useful life (i.e., assuming that the concessions would be renewed in perpetuity).

At December 31, 2020, no impairment loss was identified during the impairment test as the recoverable value is higher than the net capital employed.

The sensitivity analyses carried out have shown that, all other factors being equal, a change of less than 0.1% in WACC and/or in the growth rate g , for those CGUs where the latter parameter is positive, confirm recoverable values that are higher than carrying amounts, and therefore do not show impairment losses as defined by IAS 36.

"A2A Ambiente" Cash Generating Unit

The "A2A Ambiente" Cash Generating Unit operates in the solid urban waste segment and in the special and hazardous waste segment, performs collection and street sweeping activities in the municipalities of Milan, Brescia, Bergamo and Como and in a number of municipalities of the relative provinces, is the owner of 7 waste-to-energy plants (in the municipalities of Milan, Brescia, Bergamo, Filago, Corteolona, Cremona and Parona) and manages the Acerra waste-to-energy plant. It also has several waste treatment plants and a number of landfills.

The A2A Group's consolidated financial statements at December 31, 2020 include goodwill of 269 million euro associated with this CGU, which has been impairment tested as required by IAS 36. Of this goodwill, 227 million euro arises from the acquisition of the Ecodeco Group between 2005 and 2008 (the former Ecodeco Cash Generating Unit) and 5 million euro from the merger between ASM Brescia S.p.A. (subsequently incorporated into AEM S.p.A., with simultaneous change of its name into A2A S.p.A.) and BAS S.p.A., 30 million euro as the residual value of the goodwill of the LGH Group at the end of the PPA process for the acquisition of 51% of the Group, 2 million euro to the allocation to the CGU in 2019 of a residual portion of the goodwill recorded following the consolidation of the ACSM-AGAM Group and 5 million euro as residual goodwill at the conclusion of the PPA activity for the acquisition of the company Electrometal S.r.l..

In calculating the value in use, a time horizon corresponding to the weighted average of the residual useful life of the main assets/activities was considered for prudential purposes.

No impairment loss was noted during the impairment testing as the recoverable value exceeds the net capital employed including the value of goodwill recorded.

The sensitivity analyses carried out have shown that, all other factors being equal, a change of less than 0.1% in WACC and/or in the growth rate g , for those CGUs where the latter parameter is positive, confirm recoverable values that are higher than carrying amounts, and therefore do not show impairment losses as defined by IAS 36.

"A2A Reti Gas" Cash Generating Unit

The "A2A Reti Gas" CGU includes the Group's gas distribution and metering activities. In particular, it deals with the design and construction of gas networks, their operation and maintenance, as well as the management of requests for connection and quality control and continuity of service.

The goodwill of 41 million euro associated to the "A2A Reti Gas" CGU arises from various acquisitions made by A2A Reti Gas S.p.A. (now Unareti S.p.A.) over the last few years, relating to companies operating as gas distributors in about 200 Italian municipalities (the activity is mainly concentrated in Lombardy and Piedmont) for 38 million euro as well as 3 million euro to the allocation to the CGU in 2019 of a portion of the goodwill recorded following the consolidation of the ACSM-AGAM Group.

The recoverable value of goodwill attributed to the "A2A Reti Gas" Cash Generating Unit was calculated by referring to its value in use.

In calculating the value in use, for reasons of prudence a time horizon has been taken for outstanding concessions, which corresponds to a shorter term than that envisaged by current legislation.

No impairment loss was noted during the impairment testing as the recoverable value exceeds the net capital employed including the value of goodwill recorded.

The sensitivity analyses carried out have shown that, all other factors being equal, a change of less than 0.1% in WACC and/or in the growth rate g , for those CGUs where the latter parameter is positive, confirm recoverable values that are higher than carrying amounts, and therefore do not show impairment losses as defined by IAS 36.

"A2A Gas" Cash Generating Unit

The goodwill arising from the consolidation of the "A2A Gas" Business Unit, amounting to 31 million euro, refers to the area involved in selling gas to end customers (residential and business) and wholesalers and was impairment tested. It should be noted that the "A2A Gas" CGU consists of the portion of

goodwill arising from the merger between BAS S.p.A. and A2A S.p.A. for 7 million euro and for 24 million euro to the allocation to the CGU in 2019 of a portion of the goodwill recorded following the consolidation of the ACSM-AGAM Group.

The recoverable value of the goodwill attributed to the CGU during the impairment test, was determined by considering an indefinite useful life scenario.

No impairment loss was noted during the impairment testing as the recoverable value exceeds the net capital employed including the value of goodwill recorded.

The sensitivity analyses carried out have shown that, all other factors being equal, a change of less than 0.1% in WACC and/or in the growth rate g , for those CGUs where the latter parameter is positive, confirm recoverable values that are higher than carrying amounts, and therefore do not show impairment losses as defined by IAS 36.

“A2A Calore” Cash Generating Unit

The goodwill arising from the consolidation of the “A2A Calore” Business Unit, amounting to 22 million euro, is held by a number of companies of the A2A Group active in the production, distribution and sale of district heating. In particular, the CGU in question includes 18 million euro, a part of the goodwill arising from the merger between BAS S.p.A. and A2A S.p.A., and 1 million euro to the allocation to the CGU in 2019 of a portion of the goodwill recorded following the consolidation of the ACSM-AGAM Group.

The recoverable value of the goodwill attributed to the “A2A Calore” CGU during the impairment test was determined as the average of a scenario with indefinite useful life and definite useful life the time horizon of which was calculated over the remaining useful life of the plants.

No impairment loss was noted during the impairment testing as the recoverable value exceeds the net capital employed including the value of goodwill recorded.

The sensitivity analyses carried out have shown that, all other factors being equal, a change of less than 0.1% in WACC and/or in the growth rate g , for those CGUs where the latter parameter is positive, confirm recoverable values that are higher than carrying amounts, and therefore do not show impairment losses as defined by IAS 36.

“Energia Elettrica” Cash Generating Unit

The “Energia Elettrica” CGU belongs to the Generation and Trading Business Unit and Market Business Unit of A2A, whose activities are the generation of electricity and its sale on the wholesale and retail markets. Support for the marketing areas is assured by activities involving fuel provisioning, programming and dispatch of electricity generating plants and optimizing business portfolio management.

The goodwill arising from the consolidation of the “Energia Elettrica” CGU, amounting to 1 million euro, refers to the allocation to the CGU in 2019 of a portion of the goodwill recorded following the consolidation of the ACSM-AGAM Group.

More specifically, the activities carried out by the “Energia Elettrica” CGU consist of the following:

- electricity generation: power plant management through a generation pool of hydroelectric, thermoelectric and photovoltaic plants with installed power of about 6.8 GW;
- energy management: the purchase and sale of electricity, gas and non-gas fuels on national and international wholesale markets; the provisioning of the fuel needed, and the management of the environmental certificates, to cover the needs of thermoelectric plants and customers; planning, programming and dispatch of electricity generating plants;
- sale of electricity: sale of electricity to customers on the free market.

The impairment testing of the “Energia Elettrica” CGU solely regarded activities concerning electricity, thus excluding those relating to the “A2A Gas” CGU, for which specific impairment testing was carried out as described above.

The perimeter of the “Energia Elettrica” CGU does not include the following:

- the San Filippo del Mela power plant, owned by A2A Energiefuture S.p.A. and operating as an Essential Unit, which constitutes autonomous CGU;
- the Monfalcone power plant, owned by A2A Energiefuture S.p.A., which constitutes an autonomous CGU;
- Protected category services*, delivered by A2A Energia S.p.A.;
- development options, in line with the requirements of IAS 36;
- trading carried out by A2A S.p.A..

* Protected category services apply to customers with low-voltage domestic utilities, utilities for other non-domestic uses and public lighting (in other words, small businesses connected to a low voltage supply, with less than 50 employees and annual turnover < 10 million euro. This category includes all users who selected the so-called Free Market and ended up without a supplier. The Protected Category service guarantees the supply of electricity at prices established by ARERA (Regulation Authority for Energy Networks and Environment).

The value of the “Energia Elettrica” Cash Generating Unit in the impairment test amounted to 2,208 million euro.

The scenario of the A2A Group Plan was prepared with reference to, for 2021, the forward curves. For the subsequent years, and thus, from 2022 to 2030, the forecasts are based on an internal proprietary model of A2A and the estimation of various parameters (PUN, gas, oil price, etc.) was determined based on the trend of demand and supply fundamentals and the main reference commodities, as well as on the analyses of the main market operators and research institutions. The scenario thus elaborated has led to values that are increasing throughout the planning horizon until 2030. In particular, in 2030, the main reference values are as follows:

- Oil price: 71.8 euro/bbl;
- Average PUN: 74.8 euro/MWh;
- Gas to the PSV (spot market of reference for gas in Italy): 24.5 euro/MWh.

In addition, the future economic flows of the Energia Elettrica CGU include the forecast increase in concession fees for hydroelectric plants, as required by Law 12/19. This increase is divided into three main drivers:

- additional fee, of a unit amount of 20 euro/KW, applicable only to expired concessions managed in extension;
- updating of the method for calculating the fixed component linked to the concession power and unit tariff equal to at least 30 euro/KW (approximately +50% compared to the current rules);
- obligatory free supply of a share of electricity to the Regions.

The total impact, calculated from 2021 onwards, is around 20 million euro per year.

The impact of the full deregulation of the electricity market and the conclusion of the best protection service was also taken into account.

No impairment loss was identified during the impairment test as the recoverable value is in line with the net capital employed including the value of goodwill recorded.

The table below shows net capital employed at December 31, 2020, the discount rate used, the growth rates beyond the explicit time horizon, the recoverable value obtained.

Energia Elettrica CGU	Net capital employed in millions of euro at 12 31 2020	WACC Post-tax	Growth rate g	Recoverable Value (use value)	Difference between carrying value and value in use
12 31 2020	2,208	6.4%	0.0%	2,208	-

Energia Elettrica CGU	Net capital employed in millions of euro at 12 31 2019	WACC Post-tax	Growth rate g	Recoverable Value (use value)	Difference between carrying value and value in use
12 31 2019	2,037	6.6%	0.0%	2,164	127

Further analysis and sensitivity were also carried out considering the potential effects of changes in the WACC reference parameters: all other factors being equal, a plus/minus change of 0.2% in the WACC leads to a change in value in use of plus/minus around 19 million euro.

Assets other than goodwill

“Monfalcone” Cash Generating Unit

In line with the previous year and for the same reasons highlighted in the 2019 Financial Statements, A2A's management has kept the Monfalcone power plant in a separate CGU from the Energia Elettrica CGU. Throughout 2020, very negative Clean Spark Spread values were recorded (on average negative for approximately 14 euro/MWh) due to both the consistently high CO₂ values and the reduction in the PUN price, which significantly impacted the operating profile of the Power Plant, continuing the negative trajectory already recorded in 2019. Such low values of Clean Dark Spread do not allow full coverage of operating costs as already occurred in 2019, causing long periods of shutdown of the power plant. The priority focus for the plant is to identify a perspective that maintains the industrial connotation of the site, making the most of the distinctive expertise of A2A (which has engineering expertise and technical and managerial know-how in the energy and environment supply chains) with solutions that meet the needs of the system in terms of clean energy, flexibility and environmental solutions for the circular economy.

For the purpose of determining the value in use, a definite useful life scenario was considered, consistent with the assumptions of plant operation at the present time.

The impairment test conducted resulted in a write-down of 1 million euro.

The following table shows the discount rate and growth rate used.

Monfalcone thermoelectric plant CGU	Values before impairment test in millions of euro at 12 31 2020	WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2020	4	6.4%	0.0%	3	(1)

Monfalcone thermoelectric plant CGU	Values before impairment test in millions of euro at 12 31 2019	WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2019	3	6.6%	0.0%	1	(2)

“San Filippo del Mela” Cash Generating Unit

The power plant in San Filippo del Mela includes two plants: SFM 150 kV (group 1) and SFM 220 kV (groups 2, 5 and 6).
With Resolution no. 803/2016 of December 28, 2016, the Authority recognized the San Filippo del Mela plant as one of the essential plants eligible for the reintegration of costs for the period of contracting with Terna, which will concern the five-year period 2017-2021; from the point of view of plants, the Group's request for admission to reintegration concerned only the 220 kV plant (UP SF2, UP SF5, UP SF6) with the provision of the 150 kV (UP SF1) plant as reserve of UP SF2. During 2020, by way of Resolution 269/2020, ARERA granted the application for recognition of essentiality of the plant in 2022.

For the “San Filippo del Mela” CGU, there were no specific assumptions on the performance of revenues from Capacity Payments in view of the incompatibility between the current mechanism of cost reinstatement and potential mechanism of Capacity Market.

No impairment loss was identified during the impairment test as the recoverable value is in line with the net capital employed.

The result of the impairment test carried out on the CGU in 2020 did not entail any value adjustment.

San Filippo del Mela thermoelectric plant CGU	Values before impairment test in millions of euro at 12 31 2020	WACC	Growth rate g	Recoverable Value (use value)	Difference between carrying value and value in use
12 31 2020	54	6.4%	0.0%	54	-

San Filippo del Mela thermoelectric plant CGU	Values before impairment test in millions of euro at 12 31 2019	WACC	Growth rate g	Recoverable Value (use value)	Difference between carrying value and value in use
12 31 2019	77	6.6%	0.0%	78	1

3) Shareholdings and other non-current financial assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the year	Balance at 12 31 2020	of which included in the NFP	
					12 31 2019	12 31 2020
Shareholdings carried according to equity method	38		(21)	17	-	-
Other non-current financial assets	27	3	6	36	20	21
Total shareholdings and other non-current financial assets	65	3	(15)	53	20	21

The following table provides details of the changes in the value of “Shareholdings carried according to equity method”:

Shareholdings carried according to equity method millions of euro	TOTAL
Balance at December 31, 2019	38
First-time consolidation effect acquisitions 2020	-
Changes during the year:	
- acquisitions and capital increases	
- valuations at equity	
- write-downs	
- dividends received from shareholdings in companies carried at equity	(1)
- sales	
- other changes	(3)
- reclassifications	(17)
Total changes for the year	(21)
Balance at December 31, 2020	17

The decrease of 21 million in euro “Shareholdings carried according to equity method” is due to the change in the method of consolidation of ASM Energia S.p.A., as a result of the signing of shareholder agreements, and Gelsia Ambiente S.r.l., as a result of the industrial partnership with AEB S.p.A., for 17 million euro, the reclassification of the shareholding in Ge.S.I. S.r.l. under “Non-current assets held for sale” for 3 million euro. and the collection of dividends for 1 million euro.

The details of the shareholdings are provided in annex no. 4 “List of shareholdings in companies carried at equity”.

“Other non-current financial assets” showed a balance of 36 million euro at December 31, 2020, an increase of 9 million euro compared to the figure at December 31, 2019 attributable for 3 million euro to the first-time consolidation effects and for 7 million euro to capex in innovative start-ups through Corporate Venture Capital projects, net of other decreases of 1 million euro.

At December 31, 2020, “Other non-current financial assets” refer for 20 million euro to medium/long-term financial receivable, of which 9 million euro related to loans to third parties and lease receivables in accordance with IFRS 16, 4 million euro from the Municipality of Brescia concerning the management of public lighting systems, as required by IFRIC 12, and 7 million euro from the management of the Cedrasco biocube plant by the subsidiary Bioase, as required by IFRIC 12, 8 million euro shareholdings in other companies, a breakdown of which is provided in Annex 5 “List of shareholdings in other companies”, and 7 million euro capex in innovative start-up companies through Corporate Venture Capital projects.

4) Deferred tax assets

millions of euro	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Changes net during the year	Balance at 12 31 2020
Deferred tax assets	277	(8)	(4)	265

“Deferred tax assets” amounted to 265 million euro (277 million euro at December 31, 2019) and showed a decrease of 12 million euro.

The item includes the net effect, as detailed in the table below to which reference is made, of deferred tax liabilities and deferred tax assets for IRES and IRAP on changes and provisions made solely for tax purposes. The recoverability of “Deferred tax assets” recorded in the financial statements is considered likely, as the future plans envisage taxable income sufficient to use the deferred tax assets.

At December 31, 2020, the amounts relative to deferred tax assets/deferred tax liabilities have been expressed as net (“offsetting”) as per IAS 12 standards.

The following tables sets out the main deferred tax assets and liabilities.

	Consoli- dated financial statements 12 31 2019	First-time consolid. effect	Accruals (A)	Uses (B)	Adjust. Rates (C)	Total (A+B+C)	IFRS 9 at Equity Net	IAS 19 Revised at Equity Net	Other changes / Reclass.	Consoli- dated financial statements 12 31 2020
Detail of deferred tax assets/liabilities										
Deferred tax liabilities										
Measurement differences for tangible assets	522	5	8	(49)	-	(41)	-	-	-	486
Adoption of the finance lease standard (IFRS 16)	1	-	-	4	-	4	-	-	-	5
Application of the financial instrument standard (IFRS 9)	-	-	-	-	-	-	-	-	-	-
Measurement differences for intangible assets	71	17	1	(7)	-	(6)	-	-	(3)	79
Deferred capital gains	-	-	-	-	-	-	-	-	-	-
Employee leaving entitlement (TFR)	2	-	-	-	-	-	-	-	-	2
Goodwill	6	-	-	-	-	-	-	-	-	6
Other deferred tax liabilities	2	-	-	-	-	-	-	-	-	2
Total deferred tax liabilities (A)	604	22	9	(52)	-	(43)	-	-	(3)	580
Deferred tax assets										
Taxed risk provisions	98	5	28	(17)	-	11	-	(3)	-	111
Measurement differences for tangible assets	570	8	11	(63)	-	(52)	-	-	-	526
Application of the financial instrument standard (IFRS 9)	4	-	-	-	-	-	(9)	-	-	(5)
Bad debt provision	8	2	5	(4)	-	1	-	-	-	11
Measurement differences for intangible assets	5	-	-	-	-	-	-	-	-	5
Grants	17	-	-	(1)	-	(1)	-	-	-	16
Goodwill	179	-	-	(6)	-	(6)	-	-	-	173
Other deferred tax assets	-	1	9	(2)	-	7	-	-	-	8
Total deferred tax assets (B)	881	16	53	(93)	-	(40)	(9)	(3)	-	845
NET EFFECT DEFERRED TAX ASSETS/LIABILITIES (B-A)	277	(6)	44	(41)	-	3	(9)	(3)	3	265

5) Other non-current assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the year	Balance at 12 31 2020	of which included in the NFP	
					12 31 2019	12 31 2020
Non-current derivatives	2		(2)	-	2	-
Other non-current assets	23	6	(1)	28	-	-
Total other non-current assets	25	6	(3)	28	2	-

At December 31, 2020, the item showed, net of the first-time consolidation effect for 6 million euro, a decrease of 3 million euro compared to the previous year.

"Non-current derivative instruments" were nil at December 31, 2020 and were down by 2 million euro compared to the previous year-end.

"Other non-current assets" amounted to 28 million euro. The item consists of security deposits and costs already incurred, but pertaining to future years.

CURRENT ASSETS

6) Inventories

millions of euro	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Changes during the year	Balance at 12 31 2020
- Materials	75	3	(1)	77
- Material obsolescence provision	(18)		(2)	(20)
Total material	57	3	(3)	57
- Fuel	112	2	(41)	73
- Other	4	3	2	9
Raw and ancillary materials and consumables	173	8	(42)	139
Third-party fuel	11		(11)	-
Total inventories	184	8	(53)	139

"Inventories" amounted to 139 million euro (184 million euro at December 31, 2019), net of the related obsolescence provision for 20 million euro (18 million euro at December 31, 2019).

Inventories, net of the first-time consolidation effects of 8 million euro, showed an overall decrease of 53 million euro, as detailed below:

- 41 million euro related to the decrease in inventories of fuels (which include the inventories of fuels for the production of electricity, as well as the gas inventories for the sale and storage thereof);
- 11 million euro related to the decrease in coal inventories at third-party warehouses;
- 3 million euro related to the reduction in inventories of materials, including the allocation to the material obsolescence provision;
- 2 million euro related to the increase in inventories of trading white certificates.

7) Trade receivables

millions of euro	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Changes during the year	Balance at 12 31 2020
Trade receivables - invoices issued	756	77	(2)	831
Trade receivables - invoices to be issued	1,204	24	101	1,329
(Bad debts provision)	(108)	(16)	(6)	(130)
Total trade receivables	1,852	85	93	2,030

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At December 31, 2020, “Trade receivables” amounted to 2,030 million euro (1,852 million euro at December 31, 2019), with an increase of 93 million euro, net of the first-time consolidation effect of 85 million euro. In detail, the changes were as follows:

- for 154 million euro, the increase in trade receivables from customers, which at December 31, 2020, showed a balance of 1,912 million euro (1,758 million euro at December 31, 2019);
- for 23 million euro, the increase in receivables from associates, which had a balance of 29 million euro (6 million euro at the end of the previous year);
- for 1 million euro, the increase in receivables from the Municipalities of Milan and Brescia; this item had an overall balance of 85 million euro (84 million euro in the previous year).

The “Bad debts provision”, calculated in compliance with IFRS 9, amounted to 130 million euro and showed a net increase of 22 million euro compared to December 31, 2019, of which 16 million euro attributable to the first-time consolidation effects. This provision is considered adequate to cover the risks to which it relates.

The changes in the Bad debts provision are outlined in the following table:

millions of euro	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Provisions	Utilizations	Other changes	Balance at 12 31 2020
Bad debts provision	108	16	30	(23)	(1)	130

During 2020, there were no significant negative impacts on trade receivables from Retail customers as a result of the COVID-19 pandemic. In fact, the time to collection (“DSO”) at December 31, 2020 was aligned with the time to collection at December 31, 2019. Losses on receivables realized in 2020 were not significantly different from those recognized in previous years.

The Group, however, taking into account that the impacts related to the health emergency have not been exhausted but could only be postponed in time (reduction of the shock absorbers, possible definitive closures of some activities over the next few months), when assessing the risks of expected losses on receivables for the 2020 financial statements, as required by IFRS 9, deemed it appropriate to introduce a “specific write-down for the Coronavirus emergency”, in some cases even on past due bands of less than 270 days and consequently proceeding to increase the bad debts provision by approximately 16 million euro.

The following is the aging of trade receivables:

millions of euro	12 31 2020	12 31 2019
Trade receivables of which:	2,030	1,852
Current	588	546
Past due of which:	241	210
- Past due up to 30 days	55	41
- Past due from 31 to 180 days	51	61
- Past due from 181 to 365 days	40	34
- Past due over 365 days	95	74
Invoices to be issued	1,331	1,204
Bad debts provision	(130)	(108)

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8) Other current assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the year	Balance at 12 31 2020	of which included in the NFP	
					12 31 2019	12 31 2020
Current derivatives (commodity derivatives)	371		55	426	-	-
Other current assets of which:	196	36	27	259		
- receivables from Cassa per i Servizi Energetici e Ambientali	69	8	35	112		
- advances to suppliers	39		(12)	27		
- receivables from employees	1		-	1		
- tax receivables	14	10	29	53		
- receivables related to future years	23	2	(1)	24		
- receivables from Ergosud	2		-	2		
- receivables from social security entities	3		(1)	2		
- stamp office	1		-	1		
- receivables for damage compensation	2		1	3		
- receivables for COSAP advances	2		-	2		
- receivables for security deposits	2		1	3		
- receivables for RAI fee	3		-	3		
- other sundry receivables	35	16	(25)	26		
Total other current assets	567	36	82	685	-	-

“Other current assets” showed a balance of 685 million euro compared to 567 million euro at December 31, 2019, highlighting, net of the first-time consolidations of 36 million euro, an increase of 82 million euro.

“Current derivatives” evidenced an increase of 55 million euro related to the increase in commodity derivatives due to both the change in the fair value measurement at the end of the reporting year and the change in quantities covered. “Other current liabilities” include 403 million euro in “Current derivatives”.

Receivables from Cassa per i Servizi Energetici e Ambientali, amounting to 112 million euro (69 million euro at December 31, 2019), mainly refer to receivables for equalizations pertaining to both 2020 and to outstanding receivables for equalizations pertaining to previous years and receivables for tariff components, net of collections made in the current year.

Tax receivables, amounting to 53 million euro, mainly relate to tax receivables from the tax authorities for excise and withholding taxes.

Receivables from Ergosud S.p.A., amounting to 2 million euro, unchanged over the previous year, refer to the receivable due for new entry plants (Scandale Plant), regarding portions of emission allowances as provided by ARERA Resolutions ARG/elt no. 194/10 and no. 117/10.

9) Current financial assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the year	Balance at 12 31 2020	of which included in the NFP	
					12 31 2019	12 31 2020
Other financial assets	9		2	11	9	11
Other financial assets from related parties	1		(1)	-	1	-
Other financial assets from assets held for sale	-		-	-	-	-
Total current financial assets	10	-	1	11	10	11

“Current financial assets” amounted to 11 million euro (10 million euro at December 31, 2019). This item mainly refers to financial receivables from minority shareholders and third parties.

10) Current tax assets

millions of euro	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Changes during the year	Balance at 12 31 2020
Current tax assets	63	1	12	76

At December 31, 2020, this item amounted to 76 million euro (63 million euro at December 31, 2019) and refers to IRES and IRAP receivables for amounts requested for reimbursement on payments of previous years, and the remaining credit for Robin Tax paid in previous years and that will be recovered in subsequent years.

11) Cash and cash equivalents

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the year	Balance at 12 31 2020	of which included in the NFP	
					12 31 2019	12 31 2020
Cash and cash equivalents	434	36	542	1,012	434	1,012

“Cash and cash equivalents” at December 31, 2020 represent the sum of the Group’s active bank and postal balances; the positive change related to the first-time consolidation effect of 2020 acquisitions was equal to 36 million euro.

Bank deposits include interest accrued even if it was not credited by the end of the financial year under review.

12) Non-current assets held for sale

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the year	Balance at 12 31 2020	of which included in the NFP	
					12 31 2019	12 31 2020
Non-current assets held for sale	-	-	28	28	-	-

At December 31, 2020, “Non-current assets held for sale” amounted to 28 million euro (no amount at December 31, 2019) and related for 25 million euro to the reclassification in accordance with IFRS 5 of the assets of the subsidiary Consul System S.p.A., following the sale of a 26% stake, completed on January 28, 2021 and for 3 million euro to the reclassification of the shareholding in Ge.S.I. S.r.l. following the exercise of the put option for the entire shareholding on November 23, 2020.

EQUITY AND LIABILITIES

EQUITY

Equity, which amounted to 4,116 million euro at December 31, 2020 (3,651 million euro at December 31, 2019), is set out in the following table:

millions of euro	Balance at 12 31 2019	Changes during the year	Balance at 12 31 2020
Equity pertaining to the Group:			
Share capital	1,629	-	1,629
(Treasury shares)	(54)	-	(54)
Reserves	1,325	273	1,598
Group result of the year	389	(25)	364
Total equity pertaining to the Group	3,289	248	3,537
Minority interests	362	217	579
Total equity	3,651	465	4,116

The change of the Shareholders' equity was overall positive for 465 million euro. The net profit for the year generated a positive effect of 364 million euro, offset by the distribution of 241 million euro in dividends. Furthermore, the net fair value gain of cash flow hedge derivatives and the IAS 19 reserves for 32 million euro and the net increase in minority interests for 217 million euro also affected shareholders' equity.

13) Share capital

"Share capital" amounted to 1,629 million euro and consists of 3,132,905,277 ordinary shares each of nominal value 0.52 euro.

14) Treasury shares

"Treasury shares", which amounted to 54 million euro, unchanged over December 31, 2019, consist of 23,721,421 own shares held by the parent company A2A S.p.A..

15) Reserves

millions of euro	Balance at 12 31 2019	Changes during the year	Balance at 12 31 2020
Reserves	1,325	273	1,598
of which:			
- Change in the fair value of cash flow hedge derivatives and fair value bonds	(41)	34	(7)
- Tax effect	11	(10)	1
Cash flow hedge reserves	(30)	24	(6)
Change in the IAS 19 Revised reserve - Employee Benefits	(77)	11	(66)
Tax effect	20	(3)	17
IAS 19 Revised reserve - Employee Benefits	(57)	8	(49)

"Reserves", which amounted to 1,598 million euro (1,325 million euro at December 31, 2019), consist of the legal reserve, extraordinary reserves, and the retained earnings of subsidiaries.

This item also includes the cash flow hedge reserve, negative for 6 million euro, which refers to the year-end measurement of derivatives qualifying for hedge accounting, and the fair value measurement of the Bonds in foreign currency net of the tax effect.

The balance also includes negative reserves of 49 million euro arising from the adoption of IAS 19 Revised “Employee Benefits” which requires actuarial profits and losses to be recognized directly in an equity reserve.

The item includes the equity reserve deriving from the first application of IFRS 9, and in particular the impairment of trade receivables according to the expected losses model.

Other reserves include a net increase of 93 million euro deriving mainly from the first-time consolidation of AEB S.p.A., which resulted in an increase of 139 million euro net of the portions of shareholders’ equity, previously controlled by A2A S.p.A., assigned to minority shareholders.

Reconciliation between the result of the year of A2A S.p.A. and the Group result of the year millions of euro	2020	2019
Result of the year A2A S.p.A.	546	451
Intra-group dividends eliminated from the consolidated financial statements	(452)	(378)
Result of subsidiaries, associates and joint ventures not included in the financial statements of A2A S.p.A.	433	485
Reversal of impairment of subsidiary shareholdings in A2A S.p.A.’s financial statements	-	(97)
Other consolidation adjustments	(163)	(72)
Group result of the year	364	389

Reconciliation between the equity of A2A S.p.A. and equity pertaining to the Group millions of euro	12 31 2020	12 31 2019
Equity pertaining to A2A S.p.A.	3,177	2,844
- Elimination of the portion of the equity reserve resulting from profit on intra-group operations for the transfer of business units	(386)	(390)
- Retained earnings (losses)	736	819
- Intra-group dividends eliminated from the consolidated financial statements	(452)	(378)
- Result of subsidiaries not included in the financial statements of A2A S.p.A.	433	485
- Reversal of impairment of subsidiary shareholdings in A2A S.p.A.’s financial statements	-	(97)
- Other consolidation adjustments	29	6
Equity pertaining to the Group	3,537	3,289

16) Result of the year

This item consists of a profit of 364 million euro, representing the result for the year.

17) Minority interests

millions of euro	Balance at 12 31 2019	Changes during the year	Balance at 12 31 2020
Minority interests	362	217	579

“Minority interests” amounted to 579 million euro at December 31, 2020 (362 million euro at December 31, 2019) and mainly represent the portions of capital, reserves and result pertaining to minority shareholders related to third-party shareholders.

The net increase for the year amounted to 217 million euro, of which 215 million euro related to minority interests in the AEB Group, consolidated from November 1, 2020.

LIABILITIES

NON-CURRENT LIABILITIES

18) Non-current financial liabilities

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the year	Balance at 12 31 2020	of which included in the NFP	
					12 31 2019	12 31 2020
Non-convertible bonds	2,550	-	140	2,690	2,550	2,690
Payables to banks	638	69	221	928	638	928
Financial payables for non-current rights of use	117	10	(38)	89	117	89
Payables to other lenders	2	2	198	202	2	202
Total non-current financial liabilities	3,307	81	521	3,909	3,307	3,909

“Non-current financial liabilities” amounted to 3,909 million euro (3,307 million euro at December 31, 2019), an increase of 521 million euro, net of the first-time consolidation effects of acquisitions in the year.

“Non-convertible bonds” regard the following bonds, accounted for at amortized cost:

- 499 million euro, maturing in January 2022 and coupon of 3.625%, the nominal value of which is equal to 500 million euro;
- 300 million euro, Private Placement maturing in December 2023 and coupon of 4.00%, the nominal value of which is equal to 300 million euro;
- 300 million euro, Private Placement maturing in March 2024 and coupon of 1.25%, the nominal value of which is equal to 300 million euro;
- 298 million euro, maturing in February 2025 and coupon of 1.75%, the nominal value of which is equal to 300 million euro;
- 296 million euro, maturing in October 2027 and coupon of 1.625%, the nominal value of which is equal to 300 million euro;
- 110 million euro, Private Placement in yen maturing in August 2036 and fixed rate of 5.405%, the nominal value of which is equal to 14 billion yen;
- 394 million euro, maturing in July 2029 and coupon of 1.00%, the nominal value of which is equal to 400 million euro;
- 493 million euro, maturing in October 2032 and coupon of 0.625%, the nominal value of which is equal to 500 million euro.

The net increase in the non-current component of “Non-convertible bonds” of 140 million euro compared to December 31, 2019 was mainly due to the subscription of the new bond maturing in 2032, partly offset by the reclassification to “Current financial liabilities” of the bond maturing in 2021 and the decrease in the ECB exchange rate applied to the yen bond.

Non-current “Payables to banks” amounted to 928 million euro, an increase of 290 million euro compared to the previous year-end, including 69 million euro due to the first-time consolidation effects during the year and 221 million euro related to the stipulation of new loans with banks, net of the reclassification in the item current liabilities of the capital portions due within the following year.

“Financial payables for non-current rights of use” amounted to 89 million euro, a decrease of 28 million euro compared to December 31, 2019, as a result of the early redemption of leases relating to the renewable energy companies’ plants and the reclassification to current liabilities of the portions due within one year.

“Payables to other lenders” amounted to 202 million euro (2 million euro at December 31, 2019) and increased following the disbursement of a new loan from Cassa Depositi e Prestiti of 200 million euro to the parent A2A S.p.A..

The following table shows the comparison, for each long-term debt category, between the book value and the fair value, including the portion falling due in the next 12 months. For listed debt instruments, the fair value is determined using stock prices, while for unlisted securities the fair value is determined using valuation models for each category of financial instrument and using market data relating to the closing date of the financial year, including the credit spreads of the A2A Group.

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millions of euro	Nominal value	Book value	Current portion	Non-current portion	Fair Value
Bonds	3,049	3,088	398	2,690	3,237
Loans from banks and other lenders	1,299	1,299	169	1,130	1,339
Total	4,348	4,387	567	3,820	4,576

19) Employee benefits

The balance on this item amounted to 278 million euro (307 million euro at December 31, 2019) with changes as follows during the period:

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Provisions	Utilizations	Other changes	Balance at 12 31 2020
Employee leaving entitlement (TFR)	159	4	32	(18)	(29)	148
Employee benefits	148			(8)	(10)	130
Total employee benefits	307	4	32	(26)	(39)	278

The change during the year is attributable for 32 million euro to provisions for the year, for 26 million euro to the decrease due to disbursements for the year and for 30 million euro to the net decrease mainly related to payments for the year to pension funds. In addition, actuarial valuations for the year include the decrease resulting from actuarial gains/losses for 9 million euro. Lastly, the first-time consolidation effects of the year amounted to 4 million euro.

Technical valuations were carried out on the basis of the following assumptions:

	2020	2019
Discount rate	from -0.3% to 0.3%	from -0.1% a 0.8%
Annual inflation rate	0.8%	1.2%
Annual seniority bonus increase rate	2.0%	2.0%
Annual additional months increase rate	0.0%	0.0%
Annual cost of electricity increase rate	2.0%	2.0%
Annual cost of gas increase rate	0.0%	0.0%
Annual salary increase rate	1.0%	1.0%
Annual TFR increase rate	2.1%	2.4%
Average annual increase rate of supplementary pensions	1.1%	1.1%
Annual turnover frequencies	from 4.0% a 5.0%	from 4.0% a 5.0%
Annual TFR advance frequencies	from 2.0% a 2.5%	from 2.0% a 2.5%

It is noted that:

- the discount rate used by the Group varies from company to company on the basis of the average financial term of the bond. The discount rate used is that corresponding to Iboxx Corporate AA;
- the annual rate of salary increase applied exclusively to companies with fewer than 50 employees on average in 2006 was determined on the basis of the reference data communicated by Group companies;
- the annual rate of TFR increase, according to art. 2120 of the Civil Code, is equal to 75% of inflation plus 1.5 percentage points;
- the annual advance and turnover frequencies are derived from historical experiences of the Group and the frequencies arising from the experience of the Actuary on a significant number of similar companies;
- for the demographic technical bases, it is noted that:
 - for “death”, the tables AS62 (Electricity and gas discount), RG48 (TFR and other plans) and TG62 (Premungas) were used;
 - for “inability”, the INPS tables divided by age and gender were used;

- for “retirement”, the 100% parameter was used upon reaching the requirements of AGO (Obligatory General Insurance);
- for the “probability of leaving the family”, the table in the INPS model was used for projections to 2010;
- for the “frequency of the various structures of surviving nuclei and average age of members”, the table in the INPS model was used for projections to 2010.

20) Provisions for risks, charges and liabilities for landfills

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Provisions	Releases	Utilizations	Other changes	Balance at 12 31 2020
Decommissioning provisions	264	3	2		(15)	47	301
Landfill closing and post-closing expense provisions	196		2	(1)	(13)		184
Tax provisions	36	3	12	(3)			48
Personnel lawsuits and disputes provisions	42		9	(1)	(3)	1	48
Other risk provisions	138	19	50	(6)	(20)	(10)	171
Provisions for risks, charges and liabilities for landfills	676	25	75	(11)	(51)	38	752

At December 31, 2020, provision for risks, charges and liabilities for landfills amounted to 752 million euro and showed an increase of 76 million euro.

“Decommissioning provisions”, which amounted to 301 million euro, include charges for costs of dismantling and recovery of production sites mainly related to thermoelectric plants and waste-to-energy plants. The changes during the year concerned uses for 15 million euro, to cover the expenses incurred during the year in question, provisions for 2 million euro and other increases for 47 million euro, which refer to some new appraisals as well as the effects of the update of existing appraisals and the discount rates used to estimate future dismantling and restoration costs for sites with “Tangible fixed assets” as balancing entry. The first-time consolidation effects amounted to 3 million euro.

The “Landfill closing and post-closing expense provisions”, which amounted to 184 million euro, refer to all the costs that will have to be incurred in the future for the sealing of the landfills in cultivation at the reporting date and for the subsequent post-operative management, thirty-year and fifty-year, provided by the AIA (Integrated Environmental Authorization). The changes during the year included uses of 13 million euro, which represent actual disbursements during the year in question, and net provisions of 1 million euro.

“Tax Provisions”, which amounted to 48 million euro, refer to provisions for pending or potential litigation with the tax authorities or territorial entities for direct and indirect taxes, levies and excises. This item increased compared to December 31, 2019 by 12 million euro as a result of provisions for the year.

“Personnel lawsuits and disputes provisions”, which totalled 48 million euro, refer to litigation with third parties for 43 million euro and employees for 3 million euro to cover liabilities that may arise from pending litigation, and lawsuits with Social Security Institutions for 2 million euro related to social security contributions that the Group believes it will not be required to pay and are the subject of specific disputes.

“Other provisions”, which amounted to 171 million euro, of which 19 million euro deriving from the effects of the first consolidations, refer to provisions relating to public water derivation fees for 46 million euro, to the mobility provision for the costs arising from the corporate restructuring plan, for 6 million euro, as well as other provisions for 119 million euro, which also include the provision related to the dispute over the Grottaglie landfill.

21) Other non-current liabilities

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the year	Balance at 12 31 2020	of which included in the NFP	
					12 31 2019	12 31 2020
Other non-current liabilities	140	9	(22)	127	-	-
Non-current derivatives	9		10	19	9	19
Total other non-current liabilities	149	9	(12)	146	9	19

At December 31, 2020, this item decreased by 3 million euro compared to the balance at the end of the previous year.

“Other non-current liabilities”, which showed a balance of 127 million euro, refer to security deposits from customers for 72 million euro, to liabilities pertaining to future years for 12 million euro, to medium/long-term payables to suppliers for 3 million euro, as well as other non-current liabilities for 40 million euro, which include long-term payables, contracts for acquisitions completed over the last few years, in particular in the photovoltaic sector by the subsidiary A2A Rinnovabili S.p.A..

“Non-current derivatives” amounted to 19 million euro and showed a positive change of 10 million euro deriving from the fair value valuation of financial instruments at year-end.

CURRENT LIABILITIES

22) Trade payables and other current liabilities

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the year	Balance at 12 31 2020	of which included in the NFP	
					12 31 2019	12 31 2020
Advances	3		-	3		
Payables to suppliers	1,478	46	25	1,549		
Total trade payables	1,481	46	25	1,552	-	-
Payables to pension and social security institutions	43	1	-	44		
Current derivatives (commodity derivatives)	380		23	403		
Other current liabilities of which:	421	23	(25)	419		
- Payables to personnel	85	2	9	96		
- Payables to Cassa per i Servizi Energetici e Ambientali	105	2	(26)	81		
- Tax payables	66	15	(36)	45		
- Payables for tax transparency	7		-	7		
- Payables for energy tariff components	73		(7)	66		
- Payables for A.T.O.	3		-	3		
- Payables to customers for work to be performed	17		(2)	15		
- Payables to customers for interest on security deposits	2		-	2		
- Payables to third-party shareholders	4		(3)	1		
- Payables for the purchase of equity investments	1		19	20		
- Payables for auxiliary services	10		5	15		
- Payables for collections to be allocated	10		1	11		
- Payables to insurance companies	4		1	5		
- Payables for excise compensation	-		-	-		
- Payables for environmental compensation	3		-	3		
- Payables for RAI fee	7		1	8		
- Sundry payables	24	4	13	41		
Total other current liabilities	844	24	(2)	866	-	-
Total trade payables and other current liabilities	2,325	70	23	2,418	-	-

“Trade receivables and other current liabilities” amounted to 2,418 million euro (2,325 million euro at December 31, 2019), representing an increase of 93 million euro.

“Trade payables” amounted to 1,552 million euro and compared to the closing of the previous year, represent an increase of 71 million euro, of which 46 million euro referable to the effects deriving from the first-time consolidations of the year.

Payables to social security institutions amounted to 44 million euro, up 1 million euro compared to December 31, 2019 and relate to the Group's debt position with social security and pension institutions, related to contributions of the month of December 2020 not yet paid.

“Current derivative instruments” amounted to 403 million euro (380 million euro at December 31, 2019) and refer to the fair value valuation of commodity derivatives. The increase is due both to the increase in the fair value valuation of the year and to the change in the amounts covered. “Other current assets” included 426 million euro in “Current derivatives”.

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“Other current liabilities” mainly refer to:

- payables to employees for 96 million euro (85 million euro at December 31, 2019), relating to payables to employees for the productivity bonus accrued during the year, as well as the expense for holidays accrued but not taken at December 31, 2020;
- payables to the CSEA - Cassa per i Servizi Energetici e Ambientali for 81 million euro (105 million euro at December 31, 2019) regarding the payable for the tariff components, invoiced and not yet paid, as well as the payable for equalization liabilities related both to prior years and the year under review;
- tax liabilities for 45 million euro (66 million euro at December 31, 2019) related to payables to the tax authorities for excise, withholding taxes and VAT;
- payables for fiscal transparency for 7 million euro to the associate Ergosud S.p.A., unchanged compared to December 31, 2019;
- payables for electricity tariff components for 66 million euro (73 million euro at December 31, 2019);
- payables for A.T.O. for 3 million euro (3 million euro at December 31, 2019) relating to the payment of the fee for concessions regarding the management of the water service;
- payables to customers for work to be performed for 15 million euro (17 million euro at December 31, 2019) related to estimates already collected from customers for work that has not been completed yet;
- payables to insurance companies for 5 million euro (4 million euro at December 31, 2019);
- payables for the purchase of equity investments of 20 million euro (1 million euro at December 31, 2019) relating to the purchase of new shareholdings in the photovoltaic sector.

23) Current financial liabilities

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the year	Balance at 12 31 2020	of which included in the NFP	
					12 31 2019	12 31 2020
Non-convertible bonds	46		352	398	46	398
Payables to banks	233	5	(70)	168	233	168
Current financial payables for rights of use	25	1	(5)	21	25	21
Financial payables to related parties	-		-	-	-	-
Payables to other lenders	-		1	1	-	1
Total current financial liabilities	304	6	278	588	304	588

“Current financial liabilities” amounted to 588 million euro compared to 304 million euro recorded at December 31, 2019 and showed an increase of 284 million euro.

“Non-convertible bonds” showed a net increase of 352 million euro. The net increase is mainly due to the short-term reclassification of the bond with nominal value of 351 million euro and a coupon of 4.375% repaid in January 2021.

Current “payables to banks” amounted to 168 million euro, down 65 million euro, mainly due to repayments of credit lines and portions of loans made during the year, net of the reclassification of existing loans from medium/long-term to short-term.

24) Tax liabilities

millions of euro	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Changes during the year	Balance at 12 31 2020
Tax liabilities	6	1	(2)	5

“Tax liabilities” amounted to 5 million euro (6 million euro at December 31, 2019), a decrease of 2 million euro compared to the previous year-end, excluding the effects related to the first-time consolidations of acquisitions made in the year.

25) Liabilities directly associated with non-current assets held for sale

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the year	Balance at 12 31 2020	of which included in the NFP	
					12 31 2019	12 31 2020
Liabilities directly associated with non-current assets held for sale	-	-	14	14	-	-

At December 31, 2020, “Liabilities directly associated with non-current assets held for sale” amounted to 14 million euro (no amount at December 31, 2019) and refer entirely to the reclassification in accordance with IFRS 5 of the liabilities of the subsidiary Consul System S.p.A., following the sale of a 26% stake, completed on January 28, 2021.

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3.12 Net debt

26) Net debt
(pursuant to CONSOB Communication no. DEM/6064293 of July 28, 2006 and ESMA/2013/319)

The following table provides details of net debt:

millions of euro	Note	12 31 2020	First-time consolid. effect acquisitions 2020	12 31 2019
Bonds - non-current portion	18	2,690		2,550
Bank loans - non-current portion	18	928	69	638
Non-current financial payables for rights of use	18	89	10	117
Non-current payables to other lenders	18	202	2	2
Other non-current liabilities	21	19		9
Total medium/long-term debt		3,928	81	3,316
Non-current financial assets - related parties	3	(4)		(4)
Non-current financial assets	3	(17)	(2)	(16)
Other non-current assets	5	-		(2)
Total medium/long-term financial receivables		(21)	(2)	(22)
Total non-current net debt		3,907	79	3,294
Bonds - current portion	23	398		46
Bank loans - current portion	23	168	5	233
Current financial payables for rights of use	23	21	1	24
Current amounts due to other providers of finance	23	1		1
Current financial liabilities - related parties	23	-		-
Total short-term debt		588	6	304
Other current financial assets	9	(11)		(9)
Current financial assets - related parties	9	-		(1)
Total short-term financial receivables		(11)	-	(10)
Cash and cash equivalents	11	(1,012)	(36)	(434)
Total current net debt		(435)	(30)	(140)
Net debt		3,472	49	3,154

The Group net financial position was 3,472 million euro.

Pursuant to IAS 7 “Cash Flow Statement”, the following are the changes in financial assets and liabilities:

millions of euro	12 31 2019	Cash flow	Non-cash flow			12 31 2020
			First-time consolid. effect acquisitions 2020	Change in fair value	Other changes	
Bonds	2,596	500		(5)	(3)	3,088
Financial payables	1,015	288	87		19	1,409
Other liabilities	9			10		19
Financial assets	(30)	(1)	(2)		1	(32)
Other assets	(2)			2		-
Net liabilities deriving from financing activities	3,588	787	85	7	17	4,484
Cash and cash equivalents	(434)	(542)	(36)			(1,012)
Net debt	3,154	245	49	7	17	3,472

3.13 Notes to the income statement

The consolidation scope at December 31, 2020 changed compared to the corresponding year due to the following operations:

- acquisition by LGH S.p.A. and line-by-line consolidation of Agritre S.r.l., Tre Stock S.r.l. and Fragea S.r.l., companies operating in the biomass generation segment;
- acquisition by A2A Rinnovabili S.p.A. and line-by-line consolidation of 100% of Flabrum S.r.l. and Solar Italy V S.r.l., companies operating in the sector of power generation from renewable sources;
- line-by-line consolidation of ASM Energia S.p.A., a company operating on the gas and electricity sale market, starting February 1, 2020;
- incorporation by A2A S.p.A. and line-by-line consolidation of A2A Telecommunications S.r.l., telecommunication services company;
- line-by-line consolidation of the AEB Group as of November 1, 2020. The consolidated amounts reflect the effects of the purchase price allocation required by IFRS 3;
- lastly, the shareholding held by A2A Energy Solutions S.r.l. in Consul System S.p.A., previously fully consolidated, was reclassified to the item “Non-current assets held for sale”, in anticipation of the sale of 26% of the stake, which was finalized in late January 2021.

Moreover, the economic data at December 31, 2020 are not homogeneous with respect to the previous year due to the following contributions:

- on March 4, 2019, A2A Rinnovabili S.p.A., 100% owned by A2A S.p.A., completed the acquisition of the project company Bellariva 07 S.r.l., which owns a photovoltaic plant;
- on April 16, 2019, A2A Energy Solutions S.r.l., 100% owned by A2A S.p.A., acquired 100% of Suncity Energy S.r.l., a company operating in the energy efficiency and dispatching sector;
- on December 20, 2019, A2A Ambiente S.p.A., 100% owned by A2A S.p.A., completed the acquisition of 90% of Electrometal S.r.l. and of 100% of Areslab S.r.l., companies active in the market for the industrial waste treatment and analysis.

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26) Revenues

Revenues for the year amounted to 6,862 million euro (7,324 million euro at December 31, 2019), which was therefore a decrease of 462 million euro (-6.3%).

Details of the more significant items are as follows:

Revenues millions of euro	12 31 2020	12 31 2019	Change	% 2020/2019
Revenues from the sale of goods	5,551	6,046	(495)	(8.2%)
Revenues from services	1,117	1,076	41	3.8%
Total revenues from the sale of goods and services	6,668	7,122	(454)	(6.4%)
Other operating revenues	194	202	(8)	(4.0%)
Total revenues	6,862	7,324	(462)	(6.3%)

The reduction mainly regarded the wholesale energy market following both the lesser prices of electricity and gas and the reduction in volumes sold on the industrial gas portfolio, the retail gas and district heating markets for the decline in unit prices and lower quantities sold to large gas customers and revenues from the sale/management of energy efficiency certificates (TEE).

On the other hand, the positive contribution of higher retail sales to large electricity customers and the contribution of the companies acquired in 2020 should be noted.

The AEB Group's revenues, consolidated as of November 1, 2020, amounted to 69 million euro.

Further details of the main items are as follows:

millions of euro	12 31 2020	12 31 2019	Change	% 2020/2019
Sale and distribution of electricity	3,290	3,405	(115)	(3.4%)
Sale and distribution of gas	1,796	2,152	(356)	(16.5%)
Sale of heat	175	185	(10)	(5.4%)
Sale of materials	41	38	3	7.9%
Sale of water	83	88	(5)	(5.7%)
Sales of environmental certificates	136	147	(11)	(7.5%)
Connection contributions	30	31	(1)	(3.2%)
Total revenues from the sale of goods	5,551	6,046	(495)	(8.2%)
Services to customers	1,117	1,076	41	3.8%
Total revenues from services	1,117	1,076	41	3.8%
Total revenues from the sale of goods and services	6,668	7,122	(454)	(6.4%)
Reintegration of costs plant S. Filippo del Mela (plant essential Unit)	51	67	(16)	(23.9%)
Damage compensation	10	8	2	25.0%
Contributions Cassa Servizi Energetici ed Ambientali	5	7	(2)	(28.6%)
Rents receivable	4	3	1	33.3%
Contingent assets	34	34	-	0.0%
Incentives for production from renewable sources (feed-in tariff)	59	53	6	11.3%
Other revenues	31	30	1	3.3%
Other operating revenues	194	202	(8)	(4.0%)
Total revenues	6,862	7,324	(462)	(6.3%)

Revenue from heat sales decreased by 10 million euro mainly as a result of lower prices in the year under review compared to 2019.

The decrease in revenues from the sale of environmental certificates, amounting to 11 million euro, is mainly due to lower fees for the cancellation of distributors' energy saving obligations (TEE).

The item "Other operating revenues" showed a decrease of 8 million euro due to lower revenues for the reinstatement of generation costs incurred for the San Filippo del Mela plant (essential plant) pursuant to Resolution 803/2016 for 16 million euro, higher revenues linked to incentives on net production from renewable sources for 6 million euro, higher other revenues for 6 million euro and lower contingent assets for 2 million euro.

Further details on the reasons for the performance of revenues relating to the various Business Units can be found in the paragraph "Result by sector".

27) Operating expenses

Operating expenses amounted to 4,953 million euro (5,390 million euro at December 31, 2019), therefore representing a decrease of 437 million euro.

The main components of this item are as follows:

Operating expenses millions of euro	12 31 2020	12 31 2019	Change	% 2020/2019
Expenses for raw materials and consumables	3,407	4,004	(597)	(14.9%)
Expenses for services	1,283	1,152	131	11.4%
Total expenses for raw materials and services	4,690	5,156	(466)	(9.0%)
Other operating expenses	263	234	29	12.4%
Total operating expenses	4,953	5,390	(437)	(8.1%)

"Expenses for raw materials and services" amounted to 4,690 million euro (5,156 million euro at December 31, 2019), representing a decrease of 466 million euro, of which 52 million euro, gross of intercompany eliminations, attributable to the first-time consolidation of the AEB Group.

This decrease is due to the combined effect of the following factors:

- a decrease of 628 million euro in the purchase of raw materials and consumables, due to the decrease in costs for the purchase of power and fuel of 597 million euro, the decrease in the costs relating to the purchase of environmental certificates of 27 million euro, the decrease in purchase of materials of 3 million euro and a decrease of 1 million euro arising from hedging gains/losses on operating derivatives;
- an increase of 131 million euro in costs for delivery, subcontracted work and services;
- the increase in inventories of fuel and materials for 31 million euro.

For further information, the following table sets out details of the more significant components:

millions of euro	12 31 2020	12 31 2019	Change	% 2020/2019
Purchases of power and fuel	2,993	3,590	(597)	(16.6%)
Purchases of materials	130	133	(3)	(2.3%)
Purchases of water	2	2	-	0.0%
Hedging losses on operating derivatives	9	15	(6)	(40.0%)
Hedging gains on operating derivatives	(13)	(18)	5	(27.8%)
Purchases of emission certificates and allowances	241	268	(27)	(10.1%)
Total expenses for raw materials and consumables	3,362	3,990	(628)	(15.7%)
Delivery and transmission costs	663	567	96	16.9%
Maintenance and repairs	177	176	1	0.6%
Other services	443	409	34	8.3%
Total expenses for services	1,283	1,152	131	11.4%
Change in inventories of fuel and materials	45	14	31	n.s.
Total expenses for raw materials and services	4,690	5,156	(466)	(9.0%)
Leasehold improvements	100	74	26	35.1%
Concession fees	85	80	5	6.3%
Contributions to territorial entities, consortia and ARERA	10	10	0	0.0%
Taxes and duties	35	35	0	0.0%
Damages and penalties	3	4	(1)	(25.0%)
Contingent liabilities	10	12	(2)	(16.7%)
Other costs	20	19	1	5.3%
Other operating expenses	263	234	29	12.4%
Total operating expenses	4,953	5,390	(437)	(8.1%)

Trading margin

The following table sets out the results arising from the trading portfolio; these figures relate to trading in electricity, gas and environmental certificates.

Trading margin millions of euro	Notes	12 31 2020	12 31 2019	Change
Revenues	26	1,368	2,169	(801)
Operating expenses	27	(1,358)	(2,161)	803
Total trading margin		10	8	2

The “Trading margin” was up by 2 million euro compared to December 31, 2019. Due to the effects of the epidemic on world markets, the year 2020 was characterized by multiple commodity price dynamics with sudden and extreme price changes and moments of scarce price liquidity for both spot and forward deliveries. The Market Making activity therefore played a primary role in ensuring the pricing of less liquid products and contributed substantially to the profit and volumes brokered.

28) Labour costs

Excluding capitalized costs, labour costs at December 31, 2020 amounted to 705 million euro (700 million euro at December 31, 2019), of which 7 million euro related to the consolidation of the AEB Group.

“Labour costs” may be analysed as follows:

Labour costs millions of euro	12 31 2020	12 31 2019	Change	% 2020/2019
Wages and salaries	533	527	6	1.1%
Social security charges	179	179	-	0.0%
Employee leaving entitlement (TFR)	31	31	-	0.0%
Other costs	44	42	2	4.8%
Total labour costs before capitalizations	787	779	8	1.0%
Capitalized labour costs	(82)	(79)	(3)	3.8%
Total labour costs	705	700	5	0.7%

The table below shows the average number of employees by category:

	12 31 2020	12 31 2019	Change
Managers	203	204	(1)
Supervisors	765	698	67
White-collar workers	5,499	5,205	294
Blue-collar workers	6,440	6,091	349
Total	12,907	12,198	709

At December 31, 2020, the average labour cost per capita, not considering the effects of the consolidation of the AEB Group, amounted to 56.79 thousand euro. In the previous year, it was 57.38 thousand euro.

At December 31, 2020, the Group had 12,978 employees, of whom 729 related to the consolidation of the AEB Group. At December 31, 2019, the Group had 12,186 employees.

Other personnel costs include about 2 million euro (10 million euro at December 31, 2019) relating to the total cost of the company’s restructuring plan related to future staff leaving for redundancy.

With reference to the COVID-19 emergency, the Group made use of the Cassa Integrazione Guadagni (redundancy fund) during the year under review, which resulted in a reduction in labour costs of approximately 2 million euro.

29) Gross operating income

As a result of the above movements, consolidated “Gross operating income” at December 31, 2020 amounted to 1,204 million euro (1,234 million euro at December 31, 2019), of which 10 million euro arising from the consolidation of the AEB Group.

Further details may be found in the section “Results sector by sector”.

30) Depreciation, amortization, provisions and write-downs

“Depreciation, amortization, provisions and write-downs” totalled 654 million euro (547 million euro at December 31, 2019), of which 6 million euro from the consolidation of the AEB Group, representing a decrease of 107 million euro.

The following table provides details of the individual items:

Depreciation, amortization, provisions and write-downs millions of euro	12 31 2020	12 31 2019	Change	% 2020/2019
Amortization of intangible assets	142	123	19	15.4%
Depreciation of tangible assets	413	379	34	9.0%
Net write-downs of fixed assets	5	9	(4)	(44.4%)
Total amortization, depreciation and write-downs	560	511	49	9.6%
Provisions for risks	64	21	43	n.s.
Bad debt provision on receivables recognized as current assets	30	15	15	100.0%
Total depreciation, amortization, provisions and write-downs	654	547	107	19.6%

“Depreciation, amortization and write-downs” totalled 560 million euro (511 million euro at December 31, 2019), of which 5 million euro from the consolidation of the AEB Group, recording an overall increase of 49 million euro.

Amortization of intangible assets amounted to 142 million euro (123 million euro at December 31, 2019). The item recorded higher amortization of 19 million euro, of which 3 million euro deriving from the consolidation of the AEB Group, 3 million euro from the integrated water service and 13 million euro from the implementation of IT systems.

Depreciation of tangible assets show an increase of 34 million euro compared to December 31, 2019 and includes:

- higher depreciation of 2 million euro, relating to the consolidation of the AEB Group;
- higher depreciation of 9 million euro, relating to the plan for replacement of electricity meters;
- higher depreciation of 2 million euro for rights of use;
- higher depreciation of 10 million euro, mainly relating to the investments which went into production after December 31, 2019;
- higher depreciation of 11 million euro, due to the reversal of impairment following impairment tests at the end of 2019 for assets relating to the Chivasso, Sermide and Mincio plants;
- higher depreciation of 4 million euro related to the consolidation, starting from 2020, of Agritre S.r.l. and Trestock S.r.l., and of Biofor consolidated starting from the second half of 2019;
- lower depreciation of 4 million euro, including 3 million euro for the revision of the useful lives of the Corteolona, Giussago, Lacchiarella and Cascina Maggiore plants following the renewal of authorizations and 1 million euro for the revision of the useful life of Line 1 of the Parona waste-to-energy plant, which will be replaced by the new Line 3.

With regard to large-scale diversion hydroelectric concessions, reference should be made to note 1) Tangible assets for further information about the regulatory developments in the sector.

Write-downs for the year amounted to 5 million euro, of which 1 million from the consolidation of the AEB Group, the write-down of 2 million euro recognized on the Monfalcone plant and the write-down of 2 million euro recognized on the Grottaglie landfill in view of its reduced future income generating capacity, following the rejection of the appeal filed by the Council of State against the Sentence of the Regional Administrative Court (T.A.R.) of Lecce no. 143/2019 and the consequent confirmation of the annulment of DD 45/18, which had allowed a substantial modification of the Integrated Environmental Authorization (AIA) relating to the landfill with the consequent resumption of disposal activities.

The balance of “Provisions for risks” shows a net effect of 64 million euro (21 million euro at December 31, 2019) due to allocations in the year of 75 million euro, offset by the surpluses of 11 million euro since some ongoing disputes have ceased to exist.

Allocations for the year included 8 million euro allocation for public water diversion fees, 12 million euro allocation to tax provisions, 2 million euro allocation to provisions for landfill closure and post-closure expenses, 9 million euro allocation to personnel lawsuits, 44 million euro allocations mainly for the dispute related to the Grottaglie landfill and other allocations for pending disputes. Surpluses in

provisions for risks amounted to 11 million euro and include 5 million euro for the release of provisions for additional fees paid for hydroelectric power plants, 3 million euro for the release of provisions for tax disputes and other releases for 3 million euro.

For further information, reference is made to note 20 “Provisions for risks, charges and liabilities for landfills”.

The “Bad debts provision” showed a balance of 30 million euro (15 million euro at December 31, 2019), of which 1 million euro deriving from the consolidation of the AEB Group, determined by the allocation for the year. The increase in the bad debts provision was impacted by the effects of the COVID-19 pandemic. In fact, the Group, taking into account that the impacts of the health emergency have not been exhausted but could only be postponed in time (reduction of shock absorbers, possible definitive closure of certain activities over the next few months), in assessing the risks of expected losses on receivables, deemed it appropriate to introduce the correction “specific write-down for the Coronavirus emergency”, not only considering as risky receivables past due by more than 270 days but also those past due by 90 days to 270 days and consequently proceeding with an increase in the bad debts provision of about 16 million euro.

31) Net operating income

“Net operating income” amounted to 550 million euro (687 million euro at December 31, 2019).

32) Result from non-recurring transactions

The “Result from non-recurring transactions” showed a zero balance at December 31, 2020, while in the previous year, it amounted to 4 million euro and referred entirely to the badwill resulting from the acquisition of the shareholding in Biofor by the LGH Group and subsequently merged into Linea Ambiente S.r.l..

33) Financial balance

The “Financial balance” closed with net expense of 81 million euro (net expense of 110 million euro at December 31, 2019).

Details of the more significant items are as follows:

Financial balance millions of euro	12 31 2020	12 31 2019	Change	% 2020/2019
Financial income	12	16	(4)	(25.0%)
Financial expenses	(93)	(130)	37	(28.5%)
Affiliates	-	4	(4)	(100.0%)
Total financial balance	(81)	(110)	29	(26.4%)

“Financial income” amounted to 12 million euro (16 million euro at December 31, 2019) and may be analyzed as follows:

Financial income millions of euro	12 31 2020	12 31 2019	Change	% 2020/2019
Gains on disposals of financial assets	-	4	(4)	(100.0%)
Other financial income of which:	12	12	-	0.0%
- Financial income from the Municipality of Brescia (IFRIC 12)	6	6	-	0.0%
- Foreign exchange gains	1	1	-	0.0%
- Other income	5	5	-	0.0%
Total financial income	12	16	(4)	(25.0%)

“Financial expense”, which amounted to 93 million euro, decreased by 37 million euro over the balance at December 31, 2019, and may be analyzed as follows:

Financial expenses millions of euro	12 31 2020	12 31 2019	Change	% 2020/2019
Interest on bond loans	73	94	(21)	(22.3%)
Interest charged by banks	3	4	(1)	(25.0%)
Realized on financial derivatives	6	7	(1)	(14.3%)
Decommissioning costs	-	1	(1)	(100.0%)
Other financial expenses of which:	11	24	(13)	(54.2%)
- Discounting charges	2	8	(6)	(75.0%)
- Financial expenses (IFRS 16)	1	1	-	0.0%
- Financial expenses (IFRIC 12)	3	3	-	0.0%
- Foreign exchange losses	2	1	1	100.0%
- Other expenses	3	11	(8)	(72.7%)
Total financial expenses before capitalizations	93	130	(37)	(28.5%)
Capitalized financial expenses	-	-	-	0.0%
Total financial expenses	93	130	(37)	(28.5%)

The decrease of 21 million euro in interest on bonds is due mainly to the refinancing of bonds that matured in 2019 at lower rates.

In 2019, the item included the total costs incurred for the early settlement of the existing bond at the Talesun Group, amounting to 9 million euro.

The equity method valuation of shareholdings had a zero balance at December 31, 2019, while it was positive for 4 million euro at and was mainly attributable to the positive valuation of the shareholding held by the LGH Group in Asm Codogno.

34) Income taxes

Income taxes millions of euro	12 31 2020	12 31 2019	Change
Current IRES	130	147	(17)
Current IRAP	28	30	(2)
Effect of differences - taxes of previous years	(56)	5	(61)
Total current taxes	102	182	(80)
Deferred tax assets	39	71	(32)
Deferred tax liabilities	(42)	(64)	22
Total losses/gains for income taxes	99	189	(90)

“Income taxes” for the year amounted to 99 million euro (189 million euro at December 31, 2019).

It is noted that the parent company A2A determines IRAP taxes for the year according to art. 6, paragraph 9, of Legislative Decree December 15, 1997, no. 446 (“industrial holding” method), under which the taxable amount is determined by taking into account also financial income and expenses (excluding those related to shareholdings).

Taxes from previous years include the effect of the deduction of the loss on the sale of the shareholding in EPCG.

The reconciliation between the tax burden posted in the Consolidated Financial Statements and theoretical tax liabilities, calculated on the basis of theoretical rates applicable in Italy, is as follows:

millions of euro	2020	2019
Pre-tax result	469	581
Write-downs of assets	5	9
Pre-tax result adjusted by write-downs and the result of assets held for sale	474	590
Theoretical rates based on applicable tax rates (1)	114	142
Tax effect of the reversal of the value of fixed assets	-	-
Tax effect of write-downs	(1)	(2)
Adjustments of previous year taxes	(56)	-
Permanent differences	14	19
Total taxes charged to Income statement (excluding IRAP)	71	159
Current IRAP	28	30
Total taxes charged to Income statement	99	189

(1) Taxes were calculated using a theoretical IRES rate of 24%.

35) Net result from discontinued operations

The “Net result from discontinued operations” was negative for 2 million euro and referred to the sale of shares, equal to 4.16% of the share capital of Ascopiave S.p.A., net of dividends collected. In the previous year, the item amounted to 1 million euro and referred to the collection of dividends and the proceeds from discounting to adjust the value to fair value of the shareholding held in EPCG.

36) Result of minorities

The “Result of minorities” was negative for the Group for 4 million euro and mainly included the portion attributable to minority interests of the LGH Group, the ACSM-AGAM Group and the AEB Group. In the previous year, the item showed a negative balance for the Group for 4 million euro.

37) Group result of the year

The “Group result of the year” was positive for 364 million euro (positive for 389 million euro at December 31, 2019).

3.14 Earnings per share

38) Earnings per share

	01 01 2020 12 31 2020	01 01 2019 12 31 2019
Earnings (loss) per share (in euro)		
- basic	0.1171	0.1249
- basic, from continuing operations	0.1175	0.1247
- basic, from assets held for sale	(0.0005)	0.0002
- diluted	0.1171	0.1249
- diluted, from continuing operations	0.1175	0.1247
- diluted, from assets held for sale	(0.0005)	0.0002
Weighted average number of outstanding shares for the calculation of earnings (loss) per share		
- basic	3,109,183,856	3,109,183,856
- diluted	3,109,183,856	3,109,183,856

3.15 Note on related party transactions

39) Note on related party transactions

The definition of “related parties” is included in the international accounting standard describing the disclosures which must be made for related party transactions in financial statements (revised IAS 24).

Relationships with parent companies and their subsidiaries

On October 5, 2007, the Municipalities of Milan and Brescia signed a Shareholders' Agreement to regulate the ownership structure of A2A S.p.A.; this gave the Municipalities joint control over the company. Specifically, the merger effective January 1, 2008, regardless of the legal structure established, was considered a joint venture, whose joint control was exercised by the Municipalities of Milan and Brescia, each of which owned a share equal to 27.5%.

On June 13, 2014, the Shareholders' Meeting modified the company's governance system, passing from the original two-tier system, adopted in 2007, to a “traditional” system of management and control through the appointment of the Board of Directors.

In December 2014, the Municipalities of Milan and Brescia sold a total shareholding of 0.51% of A2A S.p.A., while in the first two months of 2015, the Municipalities of Milan and Brescia sold an additional shareholding of 4.5% of A2A S.p.A..

On October 4, 2016, the Municipalities of Milan and Brescia renewed for another three years, with effect from January 1, 2017, the Shareholders' Agreement signed on December 30, 2013, concerning 1,566,452,642 ordinary shares representing 50% plus two shares of the share capital of A2A S.p.A.. On May 20, 2016, the two Municipalities had proceeded to sign an appendix to the Agreement, which envisaged reducing from six months to three months the term of the agreement, during which it is possible to terminate the same.

On October 26, 2016, the Municipality of Milan received from the Municipality of Brescia the proposal, approved by the Council of said Municipality on October 25, 2016, to partially amend the shareholders' agreement relating to A2A S.p.A. existing between the two Municipalities. In particular, said proposal requires the commitment of the two Municipalities to maintain syndicated and bound, in the new agreement, a number of shares held by them in equal measure, equal to 42% of the share capital of A2A S.p.A.. On November 4, 2016, the Council of the Municipality of Milan, after having favourably examined the proposal of the Municipality of Brescia of a partial amendment to the shareholders' agreement, submitted to the Municipal Council the proposal of the new shareholders' agreement for the final determinations of competence.

On January 23, 2017, the Milan City Council approved the new Shareholders' Agreement between the Municipality of Milan and the Municipality of Brescia regarding the shareholding in A2A S.p.A. and has undertaken the commitment not to proceed with the disposal of any shares owned by the Municipality of Milan.

On August 2, 2019, the Municipality of Milan, also on behalf of the Municipality of Brescia, announced that the aforementioned Shareholders' Agreement was not subject to termination. Consequently, the agreement is to be considered renewed with effect from February 1, 2020 to January 31, 2023.

At the date of approval of these consolidated financial statements at December 31, 2020, the two shareholders held a shareholding of 50% plus two shares that enables the two municipalities to maintain control over the Company.

The A2A Group companies and the Municipalities of Milan and Brescia routinely entertain commercial relationships related to the supply of electricity, gas, heat, and potable water, management of public lighting systems and street lights, management of water purification and sewers, garbage collection and street sweeping and video surveillance.

Similarly, the A2A Group companies entertain commercial relationships with the companies controlled by the Municipalities of Milan and Brescia, for example, Metropolitana Milanese S.p.A., ATM S.p.A., Brescia Mobilità S.p.A., Brescia Trasporti S.p.A. and Centrale del Latte di Brescia S.p.A., supplying them with electrical energy, gas, heat, water purification and sewer service at market rates appropriate to the supply conditions and providing the services required. Note that these companies are considered related parties in the preparation of the financial statement schedules pursuant to Consob Resolution 17221 of March 12, 2010.

The relationships between the Municipalities of Milan and Brescia and the A2A Group, in relation to granting the services associated with public lighting, street lights, management and supply of electricity, gas, heat, and water purification and sewer service are regulated by special conventions and specific contracts.

The relationships between the companies controlled by the Municipalities of Milan and Brescia, which refer to the supply of electricity, are at arm's length conditions.

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On April 12, 2017, Amsa S.p.A., a subsidiary of A2A S.p.A., signed a contract with the Municipality of Milan for the management of environmental protection services for the period January 1, 2017 - February 8, 2021, extended until May 31, 2021. On March 1, 2021, the Municipality of Milan published on its website a notice of suspension of the tender procedure in the following terms: *"Notice is hereby given that by means of Orders no. 226/2021 and no. 227/2021, published on February 26, 2021, the Lombardy Regional Administrative Court, Milan, Section I, granted the precautionary requests submitted by two economic operators and, as a result, suspended the tender procedure, setting the public hearing on October 21, 2021 for discussion of the merits of the appeal. On the Sintel Aria platform, the function Suspend the Proceedings will be activated"*. Amsa is waiting for further instructions from the Municipality of Milan to ensure the orderly provision of the service.

Relationships with subsidiaries and affiliates

The parent company A2A S.p.A., operates like a centralized treasury for the majority of the subsidiaries. Relations between the companies are regulated through current accounts between the parent company and the subsidiaries, on which rates are applied, at market conditions, based on variable Euribor, with specific spreads for companies. For the financial year 2020, A2A S.p.A. and its subsidiaries have adopted the VAT procedure of the Group.

Note that for IRES purposes, A2A S.p.A. files for tax on a consolidated basis, together with its main subsidiaries, in accordance with arts. 117-129 of DPR 917/86. To this end, with each of the subsidiaries joining, a special contract was drawn up to regulate the tax advantages/disadvantages transferred, with specific reference to the current entries. These contracts also govern the transfer of any excess of ROL as set forth by prevailing legislation.

The parent company provides the subsidiaries and affiliates with administrative, fiscal, legal, management and technical services in order to optimize the resources available in the company and to use the existing expertise in terms of economic convenience. These services are governed by specific service contracts stipulated annually. A2A S.p.A. also makes office space and operating areas at its own premises available to subsidiaries and associates, as well as associated services. These are provided at market conditions.

The companies A2A gencogas S.p.A. and A2A Energiefuture S.p.A., for a monthly fee related to the actual availability of the thermoelectric plants, provide to the Parent Company the power generation service.

Telecommunication services are provided by the subsidiary A2A Smart City S.p.A..

As of July 1, 2018, the ACSM-AGAM Group's related-party transactions with related parties of the A2A Group are shown as related parties.

Finally, note that pursuant to the Consob communication issued on September 24, 2010, bearing the provisions regarding related party transactions in accordance with Consob Resolution no. 17221 of March 12, 2010, as amended, on November 11, 2010, the Group had approved the procedure for related party transactions which took effect on January 1, 2011, and which aims to ensure the transparency and substantial fairness of the related party transactions executed by A2A S.p.A. directly, or through subsidiaries, identified in accordance with the IAS 24 revised accounting standard. The Board of Directors of June 20, 2016 resolved, with the approval of the Risk Control Committee, the review of the procedure "Regulation of transactions with Related Parties". The review of the procedure particularly involves the reduction, introduced optionally, of the threshold for transactions with subsidiaries of the Municipalities of Milan and Brescia, regarding which to provide for the application of the Procedure. Finally, the procedure was updated on June 22, 2017, following Consob Resolution no. 19925 of March 22, 2017.

Below are the tables with detail of the related party transactions, in accordance with the Consob Resolution no. 17221 of March 12, 2010:

Balance sheet millions of euro	Total 12 31 2020	Of which with related parties								% effect on the balance sheet item
		Associated companies	Related companies	Municipality of Milan	Subsidiaries Municipality of Milan	Municipality of Brescia	Subsidiaries Municipality of Brescia	Related parties individuals	Total related parties	
TOTAL ASSETS OF WHICH:	12,226	28	22	75	10	15	-	-	150	1.2%
Non-current assets	8,245	2	15	-	-	4	-	-	21	0.3%
Shareholdings	17	2	15						17	100.0%
Other non-current financial assets	36					4			4	11.1%
Current assets	3,953	26	7	75	10	11	-	-	129	3.3%
Trade receivables	2,030	26	5	75	10	10	-	-	126	6.2%
Other current assets	685		2						2	0.3%
Current financial assets	11					1			1	9.1%
TOTAL LIABILITIES OF WHICH:	8,096	51	2	3	1	7	-	-	64	0.8%
Non-current liabilities	5,085	1	-	-	-	-	-	-	1	0.0%
Provisions for risks and charges	752	1							1	0.1%
Current liabilities	3,011	50	2	3	1	7	-	-	63	2.1%
Trade payables	1,552	43	2	3	1	7	-	-	56	3.6%
Other current liabilities	866	7							7	0.8%

Income statement millions of euro	Total 12 31 2020	Of which with related parties								% effect on the balance sheet item
		Associated companies	Related companies	Municipality of Milan	Subsidiaries Municipality of Milan	Municipality of Brescia	Subsidiaries Municipality of Brescia	Related parties individuals	Total related parties	
REVENUES	6,862	28	22	326	36	38	2	-	452	6.6%
Revenues from the sale of goods and services	6,668	28	22	326	36	38	2		452	6.8%
OPERATING EXPENSES	4,953	44	3	3	5	8	-	-	63	1.3%
Expenses for raw materials and services	4,690		3		5				8	0.2%
Other operating expenses	263	44		3		8			55	20.9%
LABOUR COSTS	705	-	-	-	-	-	-	1	1	0.1%
FINANCIAL BALANCE	(81)	-	-	-	-	6	-	-	6	(7.4%)
Financial income	12					6			6	50.0%

The complete financial statements are included in the section “Consolidated financial statements” of this report pursuant to Consob Resolution no. 17221 of March 12, 2010.

* * *

With regard to the compensation paid to the corporate governance bodies, reference shall be made to the document “Remuneration Report – 2021” available on the website www.a2a.eu.

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3.16 Consob Communication no. DEM/6064293 of July 28, 2006

40) Consob Communication no. DEM/6064293 of July 28, 2006

The industrial partnership transaction between the A2A Group and the AEB Group became effective on November 1, 2020, as described in greater detail in the section “Significant events during the year” in the Report on operations.

Since November 1, the A2A Group has fully consolidated the AEB Group.

3.17 Guarantees and commitments with third parties

millions of euro	12 31 2020	12 31 2019
Guarantees received	918	837
Guarantees provided	1,265	1,274

Guarantees received

Guarantees received amounted to 918 million euro (837 million euro at December 31, 2019) and included 342 million euro for sureties and security deposits issued by subcontractors to guarantee the proper execution of the work assigned and 499 million euro for sureties and security deposits received from customers to guarantee the regularity of payments and guarantees received by the ACSM-AGAM Group for 41 million euro and guarantees received by the AEB Group for 36 million euro.

Guarantees provided and commitments with third parties

Guarantees provided amounted to 1,265 million euro (1,274 million euro at December 31, 2019), of which for obligations undertaken in the loan agreements of 66 million euro. These guarantees have been issued by banks for 862 million euro, insurance companies for 50 million euro and the parent company A2A S.p.A., as parent company guarantee, for 261 million euro and guarantees provided by the ACSM-A-GAM Group for 89 million euro and guarantees provided by the AEB Group for 3 million euro.

* * *

Group companies hold third party assets under concession, relating mainly to the integrated water cycle, amounting to 66 million euro.

* * *

As described in greater detail in paragraph 8) Update of the main legal and tax disputes still pending, Linea Ambiente S.r.l. - Grottaglie landfill, part of the shares held by Linea Ambiente S.r.l. in Lomellina Energia are subject to judicial seizure.

3.18 Other information

1) Significant events for the Group after December 31, 2020

For a description, reference is made to the paragraph "Significant events after December 31, 2020" of the Report on operations.

2) Information on treasury shares

At December 31, 2020, A2A S.p.A. held 23,721,421 treasury shares, being 0.757% of share capital which consists of 3,132,905,277 shares, unchanged from the end of December 31, 2019.

At December 31, 2020, no treasury shares were held through subsidiaries, finance companies or nominees.

3) Transactions as per IFRS 3 revised

In 2020, the A2A Group completed the following acquisitions of investments, which fall within the provisions of IFRS 3:

- on November 1, 2020, line-by-line consolidation of the AEB Group;
- on December 2 and 4, 2020, acquisition and line-by-line consolidation by A2A Rinnovabili S.p.A., wholly owned by A2A S.p.A., of Flabrum S.r.l., the A2A Group's first wind farm, and Solar Italy V S.r.l., a company that holds the authorization to build a photovoltaic park;
- on February 27, 2020, the acquisition and line-by-line consolidation by LGH S.p.A. of Agritre S.r.l. and Trestock S.r.l., companies active in the production of energy from biomass;
- on October 19, 2020, acquisition and line-by-line consolidation by LGH S.p.A. of the company Fragea S.r.l..

In addition, the Purchase Price Allocation process following the acquisition of 90% of Electrometal S.r.l. and 100% of Areslab S.r.l., companies active in the market for the treatment and analysis of industrial waste, was completed by A2A Ambiente S.p.A. in 2020.

The transactions summarized above are classified as business combinations in accordance with international standard IFRS 3 "Business Combinations"; the Group fully consolidated the companies through the application of the acquisition method prescribed by IFRS 3, by virtue of the control obtained on the entities acquired.

IFRS 3 requires all business combinations to be accounted for using the acquisition method within twelve months from acquisition. The acquirer must therefore recognize all the identifiable assets, liabilities and contingent liabilities relating to the acquisition at their fair values at the acquisition date and highlight the eventual recognition of goodwill.

The fee transferred in a business combination is determined at the date of acquisition of control and is equal to the fair value of assets transferred, liabilities incurred, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are recognized in the income statement when incurred. At the date of acquisition of control, the net equity of the investee companies is determined by attributing to individual assets and liabilities their fair value, except in cases where the IFRS provisions provide a different valuation criterion. Any residual difference with respect to the purchase cost, if positive, is recognized under the item "Goodwill" (hereinafter also goodwill); if negative, it is recognized in the income statement.

Business Combination AEB Group

On October 27, 2020, A2A S.p.A. transferred its shareholding in A2A Illuminazione Pubblica S.r.l. to its subsidiary Unareti S.p.A. for 19 million euro, with the simultaneous partial demerger of the gas distribution business relating to certain municipalities in the provinces of Bergamo and Milan and the investment in A2A Illuminazione Pubblica S.r.l. to AEB S.p.A., with effect from November 1, 2020.

As a result of this transaction, AEB granted A2A 33.5% of its share capital.

This combination can be identified as a business combination within the meaning of IFRS 3 "Business combinations", for A2A S.p.A., which has fully consolidated the AEB Group as of November 1, 2020.

As a result of the transaction described above, the AEB Group was consolidated on a line-by-line basis and the A2A Group decided to immediately carry out a Purchase Price Allocation (PPA), entrusting the valuation to an independent external expert who redefined all the assets and liabilities of the AEB Group. The conclusion of the PPA process resulted in a higher value for A2A of 11 million euro. As a result of this allocation, the consolidated shareholders' equity of the AEB Group's interest in A2A amounted to 109 million euro, while the fair value of the interests transferred by A2A to AEB amounted to 159 million euro as the exchange valuation of the shareholding. This difference of 50 million euro is recognized as residual goodwill from the transaction.

Business combination LGH S.p.A.

On February 27, 2020, LGH S.p.A. finalized the acquisition of Agritre S.r.l. and Tre Stock S.r.l., two companies active in the production of energy from biomass.
The acquisition was concluded for a counter value of 53.4 million euro, of which 52.4 million euro for the purchase of shareholdings and 1 million euro for the entry of the loan of the former shareholders. The price was fully settled at the closing of the transaction.
At closing, goodwill of 10.2 million euro emerged, allocated directly to the value of the assets acquired for 14.4 million euro and related deferred taxes of 4.2 million euro.

On November 5, 2020, LGH S.p.A. also completed the acquisition of the equity investment in Fragea S.r.l. and of the business unit related to a plant active in the production of energy from biomass, located in the municipality of San Fiorano (Lodi).
The acquisition of the shareholding was defined for a counter value of 0.3 million euro, fully settled at closing, and generated badwill of 0.1 million euro recognized in the income statement.
The acquisition of the business unit was concluded for a value of 3.7 million euro, fully settled at the closing of the transaction, and generated goodwill of 1.2 million euro allocated entirely to the higher value of the San Fiorano plant.

Business Combinations Rinnovabili Group

In December 2020, A2A Rinnovabili S.p.A. finalized the acquisition of 100% of Flabrum S.r.l., which owns a wind farm, and Solar Italy V S.r.l., a company which holds the authorization to build a photovoltaic park. The acquisition of Flabrum S.r.l. was concluded for a value of 13.7 million euro, of which 12 million euro for the purchase of shareholdings and 1.7 million euro for the entry of the loan of the former shareholders. The price was fully settled at the closing of the transaction.
At closing, the transaction generated goodwill of 11.1 million euro, which will be allocated through the Purchase Price Allocation process within the time frame required by IFRS 3.

The acquisition of Solar Italy V S.r.l. was concluded for a value of 0.3 million euro, of which 0.2 million euro for the purchase of shares and 0.1 million euro for the entry of the loan of the former shareholders. The price was fully settled at the closing of the transaction.
At closing, the transaction generated goodwill of 0.2 million euro, which was allocated to other intangible assets.

Business combination A2A Ambiente S.p.A.

On December 20, 2019, A2A Ambiente S.p.A., 100% owned by A2A S.p.A., completed the acquisition of 100% of Areslab S.r.l. and of 90% of Electrometal S.r.l., companies active in the market for the industrial waste treatment and related laboratory analysis.

The transaction was concluded for 17.6 million euro entirely for the purchase of equity investments. At the same time as the closing, on December 20, 2019, A2A Ambiente S.p.A. paid 15.8 million euro; during 2020 the remainder, amounting to 1.8 million euro, was paid to the seller in addition to a price adjustment of 0.3 million euro, which brought the total value of the transaction to 17.9 million euro.
At closing, the transaction generated goodwill of 13.6 million euro, restated under other intangible assets for a total of 11.6 million euro and related deferred taxes of 3.2 million euro. At transaction closing, residual goodwill of 5.2 million euro remained.

4) Information on non-current assets held for sale and discontinued operations (IFRS 5)

At December 31, 2020, “Non-current assets held for sale” amounted to 28 million euro (no amount at December 31, 2019) and related for 25 million euro to the reclassification in accordance with IFRS 5 of the assets of the subsidiary Consul System S.p.A., following the sale of a 26% stake, completed on January 28, 2021 and for 3 million euro to the reclassification of the shareholding in Ge.S.I. S.r.l. following the exercise of the put option for the entire shareholding on November 23, 2020.

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The main balance sheet and income statement figures of Consul System at December 31, 2019 are shown below:

Figures at December 31, 2019 millions of euro		Consul System S.p.A.
BALANCE SHEET		
Non-current assets		1
Current assets		36
Total assets		37
Equity		11
Non-current liabilities		2
Current liabilities		24
Total Equity and liabilities		37
INCOME STATEMENT		
Revenues		47
Gross operating margin		4
Result for the year		2

5) Rules on public funding (Compliance with art. 1, paragraphs 125 et seq. of Law 124/17)

Pursuant to art. 1, paragraphs 125 et seq. of Law 124/17, considering that the Group companies have not received “subsidies, grants, advantages, contributions or aid, whether in cash or in kind, not general and with no consideration, remuneration or compensation”, this note is negative.

It is understood that other information is (also in line with the principle set out in art. 18 of Law 241/1990) available elsewhere, including the State Aid Register, also under the criterion set out in paragraph 127 of the same art. 1 of Law 124/17, which prescribes to “avoid the accumulation of irrelevant information”.

It should also be noted that the companies of the A2A Group operate (for the most part) in regulated sectors. Therefore, some sums are recognized by public bodies, but not as subsidies/contributions, but as recognition of the activities they provide or as forms of compensation for costs incurred to meet specific regulatory obligations and in any case by virtue of a general regime (e.g. energy incentives). Also all these forms of payment have not been indicated: also in compliance with both the literal aspect of the regulations and with the interpretation criteria that the Group companies have identified (see above).

6) Financial risk management

The A2A Group operates in the electricity, natural gas and district heating industry and is exposed to various financial risks in performing its activity:

- a) commodity risk;
- b) interest rate risk;
- c) exchange rate risk not related to commodities;
- d) liquidity risk;
- e) credit risk;
- f) equity risk;
- g) default and covenant non-compliance risk.

The commodity price risk, related to the volatility of energy commodity prices (gas, electricity, fuel oil, coal, etc.) and prices of environmental securities (EUA/ETS emission rights, green certificates, white certificates, etc.), consists of the possible negative effects that a change in the market price of one or more commodities may have on the cash flows and income prospects of the company, including the exchange rate risk related to the same commodities.

Interest rate risk is the risk of additional financial costs as the result of an unfavourable change in interest rates.

Currency risk not related to commodities is the risk of higher costs or lower revenues because of an unfavourable change in exchange rates between currencies.

Liquidity risk is the risk that financial resources will not be sufficient to meet established financial and business obligations in a timely manner.

Credit risk is the exposure to potential losses deriving from non-performance of commitments by commercial, trading and financial counterparties.

Equity risk is the possibility of incurring losses due to an unfavourable change in the price of shares.

Default and covenant non-compliance risk represent the possibility that loan agreements or bond regulations to which one or more Group companies are party contain provisions allowing the counterparties, banks or bondholders, to ask the debtor for immediate reimbursement of the amounts lent if certain events take place.

Details on the risks to which the A2A Group is exposed are provided below.

a. Commodity risk

a.1) Commodity price risk and exchange rate risk involved in commodity activities

The Group is exposed to price risk, including the related currency risk, on all of the energy commodities that it handles, namely electricity, natural gas, heat, coal, fuel oil and environmental certificates; the results of production, purchases and sales are similarly affected by fluctuations in the prices of such energy commodities. These fluctuations act both directly and indirectly, through formulas and indexing in the pricing structure.

To stabilize cash flows and to assure the Group's economic and financial stability, A2A S.p.A. has an Energy Risk Policy that sets out clear guidelines to manage and control the above risks, based on guidance by the Committee of Chief Risk Officers Organizational Independence and Governance Working Group (CCRO) and the Group on Risk Management of Eurelectric. Reference was also made to the Accords of the Basel Committee on bank supervision and the requirements laid down in international accounting standards on how to recognize the volatility of commodity price and financial derivatives in the income statement and balance sheet.

In the A2A Group, assessment of this kind of risk is centralized at the holding company, which has established a Group Risk Management Organizational Unit as part of the Planning, Finance and Control Organizational Unit. This unit has the task to manage and monitor market and commodity risks, to create and evaluate structured products, to propose financial energy risk hedging strategies, and to support senior management in defining the Group's energy risk management policies.

Each year, the Board of Directors of A2A S.p.A. sets the Group's commodity risk limits approving the PaR and VaR proposed (prepared in the Risk Committee) in conjunction with approval of the Budget/Business Plan; Group Risk Management supervises the situation to ensure compliance with these limits and proposes to senior management the hedging strategies designed to bring risk within the set limits, if exceeded.

The activities that are subject to risk management include all of the positions on the physical market for energy products, both purchasing/production and sales, and all of the positions in the energy derivatives market taken by Group companies.

For the purpose of monitoring risks, industrial and trading portfolios have been separated and are managed in different ways. The industrial portfolio consists of the physical and financial contracts directly relating to the Group's industrial operations, namely where the objective is to enhance production capacity also through the wholesaling and retailing of gas, electricity and heat.

The trading portfolio comprises all contracts, both physical and financial, entered into to supplement the profits made from the industrial activities, i.e. all contracts that are ancillary though not strictly necessary to the industrial activity.

In order to identify trading activity, the A2A Group follows the Capital Adequacy Directive and the definition of assets held for trading provided by International Accounting Standard (IFRS) 9: namely assets held for the purpose of short-term profit taking on market prices or margins, without being for hedging purposes, and designed to create a high-turnover portfolio.

Given that they exist for different purposes, the two portfolios have been segregated and are monitored separately with specific tools and limits. More specifically, the trading portfolio is subject to particular risk control and management procedures as laid down in Deal Life Cycle documents.

Senior management is systematically updated on changes in the Group's commodity risk by the Group Risk Management Unit, which controls the Group's net exposure. This is calculated centrally on the entire asset and contract portfolio and monitors the overall level of economic risk assumed by the industrial and trading portfolios (Profit at Risk - PaR, Value at Risk - VaR, Stop Loss).

a.2) Commodity derivatives, analysis of transactions

Derivatives of the industrial portfolio considered hedges

The hedging of price risk by means of derivatives focuses on protecting against the volatility of energy prices on the power exchange (IPEX-EEX), stabilizing electricity price margins on the wholesale market with particular attention being paid to fixed price energy sales and purchases and stabilizing price differences deriving from various indexing mechanisms for the pricing of gas and electricity. To that end, hedging contracts were executed during the year on electricity purchase and sale agreements and on contracts to hedge the fee for the use of electricity transport capacity between the areas of the IPEX market (CCC contracts); hedging contracts were also concluded for the purchase and sale of gas so as to protect sales margins and at the same time keep the risk profile to within the limits set by the Group's Energy Risk Policy.

As part of the optimization of the portfolio of greenhouse gas emission allowances (see Directive 2003/87/EC), the A2A Group has stipulated Future contracts on the ICE ECX (European Climate Exchange) price. These are considered hedging transactions from an accounting point of view in the event of demonstrable surplus/deficit quotas.

The fair value at December 31, 2020 was 24.0 million euro (-17.4 million euro at December 31, 2019).

Derivatives of the industrial portfolio not considered hedges

Again with a view to optimising the Industrial Portfolio, Future contracts have been entered into on the ICE ECX (European Climate Exchange) stock exchange price. These do not qualify as hedging transactions from an accounting point of view as they fail to meet the requirement set out in the accounting standards. The fair value at December 31, 2020 was -0.5 million euro (0.0 million euro at December 31, 2019).

Derivatives of the Trading Portfolio

As part of its trading activity, the A2A Group has taken out Future contracts on major European energy stock exchanges (EEX, ICE) and Forward contracts on the price of electricity with delivery in Italy and neighboring countries such as France, Germany and Switzerland. The Group has also stipulated Future contracts on the ICE ECX (European Climate Exchange) stock exchange price. Also as part of trading activities, both Future and Forward contracts were also stipulated for the market price of gas (ICE-Endex CEGH, PEGAS).

The fair value at December 31, 2020 was -0.6 million euro (8.8 million euro at December 31, 2019).

a.3) Energy Derivatives, risk assessment of Industrial Portfolio derivatives

PaR¹ or Profit at Risk, is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the industrial portfolio. It is the change in the value of a financial instruments portfolio within set probability assumptions as the result of a shift in the market indices. The PaR is calculated using the Montecarlo Method (at least 10,000 trials) and a 99% confidence level. It simulates scenarios for each relevant price driver depending on the volatility and correlations associated with each one, using as the central level the forward market curves at the balance sheet date, if available. By means of this method, after having obtained a distribution of probability associated with changes in the result of outstanding financial contracts, it is possible to extrapolate the maximum change expected over a time horizon given by the accounting period at a set level of probability. Based on this method, over the time horizon of the accounting period and in the event of extreme market movements and at a 99% confidence level, the expected maximum negative change in financial derivatives outstanding at December 31, 2020 was 54.970 million euro (98.735 million euro at December 31, 2019).

The following are the results of the simulation with the related maximum variances:

millions of euro	12 31 2020		12 31 2019	
	Worst case	Best case	Worst case	Best case
Profit at Risk (PaR)				
Confidence level 99%	(54.970)	74.029	(98.735)	120.612

1 Profit at Risk: statistical measurement of the maximum potential negative deviation of the margin of an asset portfolio in case of unfavourable market changes over a given time horizon and with a defined confidence interval.

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The A2A Group therefore expects, with a 99% probability, not to have changes compared to the fair value at December 31, 2020 exceeding 54.970 million euro of its entire portfolio of financial instruments due to commodity price fluctuations in the 12 months following. If there are any negative changes in the fair value of derivatives, these would be compensated by changes in the underlying as the result of changes in market prices.

a.4) Energy Derivatives, risk assessment of Trading Portfolio derivatives

VaR² (Value at Risk) is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the trading portfolio. It is the negative change in the value of a financial instruments portfolio within set probability assumptions as the result of an unfavourable shift in the market indices. VaR is calculated using the RiskMetrics method with a holding period of 3 days and a confidence level of 99%. Alternative methods are used for contracts where it is not possible to perform a daily estimate of VaR such as stress test analysis. Based on this method, in the case of extreme market movements, with a confidence level of 99% and a holding period of 3 days, the maximum estimated loss on the derivatives in question was 0.315 million euro at December 31, 2020 (0.159 million at December 31, 2019). In order to ensure closer monitoring of activities, VaR and Stop Loss (the sum of VaR, P&L Realized and P&L Unrealized) limits are also set.

The following are the results of the assessments:

millions of euro	12 31 2020		12 31 2019	
Value at Risk (VaR)	VaR	Stop Loss	VaR	Stop Loss
Confidence level 99%, holding period 3 days	(0.315)	(0.315)	(0.159)	(0.159)

b. Interest rate risk

The volatility of financial expenses associated to the performance of interest rates is monitored and mitigated through a policy of interest rate risk management aimed at identifying a balanced mix of fixed-rate and variable rate loans and the use of derivatives that limit the effects of fluctuations in interest rates.

The book value and type of gross debt at December 31, 2020 are shown in the table below:

millions of euro	12 31 2020			12 31 2019		
	Before hedging	After hedging	% after hedging	Before hedging	After hedging	% after hedging
Fixed rate	3,143	3,333	74%	2,649	2,892	80%
Variable rate	1,355	1,165	26%	962	719	20%
Total	4,498	4,498	100%	3,611	3,611	100%

At December 31, 2020, the following are the hedging instruments for interest rate risk:

millions of euro		12 31 2020		12 31 2019	
HEDGING INSTRUMENT	HEDGED ASSET	Fair value	Notional	Fair value	Notional
IRS	Variable rate loan	(0.3)	16.4	(0.3)	23.7
IRS	Leasing and variable rate loan	-	-	(3.2)	19.1
Collar	Variable rate loan	(3.5)	57.1	(5.6)	76.2
Total		(3.8)	73.5	(9.1)	119.0

2 Value at Risk: statistical measurement of the maximum potential drop in the fair value of an asset portfolio in the event of unfavourable movements in the market with a given time horizon and confidence level.

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With reference to the accounting treatment, hedging derivatives for interest rate risk can be classified as follows:

millions of euro

ACCOUNTING TREATMENT	DERIVATIVES	NOTIONAL		FAIR VALUE ASSETS		NOTIONAL		FAIR VALUE LIABILITIES	
		at 12/31/2020	at 12/31/2019	at 12/31/2020	at 12/31/2019	at 12/31/2020	at 12/31/2019	at 12/31/2020	at 12/31/2019
Cash flow hedge	Collar	-	-	-	-	57.1	76.2	(3.5)	(5.6)
Cash flow hedge	IRS	-	-	-	-	16.4	42.8	(0.3)	(3.5)
Total		-	-	-	-	73.5	119.0	(3.8)	(9.1)

Derivatives on interest rates at December 31, 2020 in cash flow hedge refer to the following loans:

Loan	Derivative	Accounting
A2A S.p.A. loan with BEI: expiring in November 2023, residual balance at December 31, 2020 amounting to 57.1 million euro, at variable rate.	Collar to fully cover the loan and the same maturity, with a floor on Euribor rate 2.99% and 4.65% cap. At December 31, 2020, the fair value was negative for 3.5 million euro.	The loan is measured at amortized cost. The collar is a cash flow hedge, with 100% recognized in a specific equity reserve.
Linea Green loan with Unicredit: maturity May 2021, residual balance at December 31, 2020 amounting to 2.4 million euro, at floating rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2020, the fair value was negative for 33 thousand euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
ACSM-AGAM loan with Intesa Sanpaolo: maturity June 2021, residual debt at December 31, 2020 amounting to 2.9 million euro, at variable rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2020, the fair value was negative for 9 thousand euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
ACSM-AGAM loan with Unicredit: maturity June 2023, residual balance at December 31, 2020 amounting to 5.0 million euro, at variable rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2020, the fair value was negative for 63 thousand euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
Flabrum loan with Mediocredito Italiano: maturity December 2026, residual balance at December 31, 2020 amounting to 7.5 million euro, at variable rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2020, the fair value was negative for 224 thousand euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.

The A2A Group performs sensitivity analysis by estimating the effects on the value of financial statement items relating to the portfolio of financial instruments deriving from changes in the level of interest rates. In particular, the sensitivity analysis measures the potential impact on the Income Statement and shareholders' equity of different market scenarios that would determine the change in fair value of derivative financial instruments and the change in financial expenses related to the portion of gross debt not hedged.

These market scenarios are obtained by shifting the reference interest rate curve at the reporting date up and down in parallel.

Keeping all other variables constant, the pre-tax result is impacted by changes in the level of interest rates as follows:

millions of euro	Effect on the Income Statement (before tax)		Effect on Equity (before tax)	
	-50 bps	+50 bps	-50 bps	+50 bps
Change in financial expenses on gross variable-rate debt after hedging	0.8	(2.9)	-	-
Change in fair value of derivative financial instruments classified as non-hedge	-	-	-	-
Change in fair value of derivative financial instruments classified as hedge (excluding BCVA as per IFRS 13)				
Cash flow hedge	-	-	(0.6)	0.6
Fair value hedge	-	-	-	-

c. Exchange rate risk not related to commodities

In relation to exchange rate risk other than that included in the price of commodities, the hedging instrument at December 31, 2020 is as follows:

millions of euro		12 31 2020		12 31 2019	
HEDGING INSTRUMENT	HEDGED ASSET	Fair value	Notional	Fair value	Notional
Cross Currency IRS	Fixed rate loan in foreign currency	(14.7)	98.0	2.4	98.0
Total		(14.7)	98.0	2.4	98.0

With regard to the accounting treatment, it is specified that the hedging derivative above is in cash flow hedge with full recognition in the equity reserve.

In particular, the underlying of the Cross Currency IRS derivative refers to the bond at fixed rate of 14 billion yen with maturity 2036 bullet issued in 2006. A cross currency swap contract was stipulated for the entire duration of this loan, which converts the principal and interest payments from yen into euro.

At December 31, 2020, the fair value of the hedge was negative for 14.7 million euro. The fair value and, as a consequence, the effect on equity, would improve by 12.3 million euro in the event of a 10% increase in the forward curve of the euro/yen exchange rate (appreciation of the yen) and would worsen by 14.6 million euro in the event of a 10% drop in the forward curve of the euro/yen exchange rate (depreciation of the yen). The sensitivity analysis was performed with the aim of calculating the effect of changes in the forward curve of the euro/yen exchange rate on the fair value ignoring any impact on the adjustment due to the bCVA.

d. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations in a timely manner or that it is able to do so under unfavourable economic conditions. The profile of the Group's gross debt maturities is as follows:

millions of euro	Accounting Balance 12 31 2020	Portions maturing within 12 months	Portions maturing beyond 12 months	Portions maturing by				
				12 31 2021	12 31 2022	12 31 2023	12 31 2024	After
Bonds	3,088	398	2,690	499	300	300	298	1,293
Financial payables for rights of use (*)	112	22	90	16	12	9	8	45
Loans from banks and other lenders	1,298	169	1,129	96	147	79	84	723
Total	4,498	589	3,909	611	459	388	390	2,061

(*) Including finance leases.

The risk management policy is realized through (i) a debt management strategy diversified by funding sources and maturities, and (ii) maintenance of financial resources sufficient to meet scheduled and unexpected commitments over a given time horizon.

At December 31, 2020, the Group had a total of 1,802 million euro, as follows:

- (i) committed revolving credit lines of 740 million euro, of which 140 million euro maturing in 2021 and 600 million euro maturing in 2023, unused;
- (ii) unused long-term EIB loans for a total of 50 million euro;
- (iii) cash and cash equivalents totaling 1,012 million euro, including 947 million euro at the Parent Company level.

A2A also maintains a Bond Issue Program (Euro Medium Term Note Programme) of 4 billion euro, of which 1,049 million euro still available at December 31, 2020 and 1,400 million available at the date of preparation of this report.

The following table analyzes the worst case for financial liabilities (excluding payables for rights of use and including trade payables), in which all of the amounts shown are non-discounted future nominal cash flows determined on the basis of residual contractual maturities for both principal and interest.

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The undiscounted nominal flows of derivative contracts on interest rates are also included. Finally, any revocable financial lines used and current accounts payable are due within the next financial year.

12 31 2020 millions of euro	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS	TOTAL
Bonds	397	27	2,947	3,371
Loans from banks and other lenders	61	111	1,148	1,320
Total financial flows	458	138	4,095	4,691
Payables to suppliers	476	19	2	497
Total trade flows	476	19	2	497

12 31 2019 millions of euro	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS	TOTAL
Bonds	45	24	2,833	2,902
Loans from banks and other lenders	90	153	694	937
Total financial flows	135	177	3,527	3,839
Payables to suppliers	491	8	2	501
Total trade flows	491	8	2	501

e. Credit risk

Credit risk relates to the possibility that a counterparty, commercial or trading, may be in default, or fail to respect its commitment in the manner and timing provided by contract. This type of risk is managed by the Group through specific procedures (Credit Policy, Energy Risk Management procedure) and appropriate mitigation actions.

This risk is overseen by both the Credit Management function allocated centrally (and the corresponding functions of the operating companies) and the Group Risk Management Organizational Unit responsible for supporting the Group companies with reference to both commercial and trading activities. Risk mitigation is through the prior assessment of the creditworthiness of the counterparty and the constant verification of compliance with exposure limit as well as through the request for adequate guarantees.

The credit terms granted to customers as a whole have a variety of deadlines, in accordance with applicable law and market practice. In cases of delayed payment, default interest is charged as explicitly prescribed by the underlying supply contracts or by current law (application of the default rate as per Legislative Decree 231/2002).

Trade receivables are stated in the balance sheet net of any write-downs; the amount shown is considered to be a correct reflection of the realizable value of the receivables portfolio. For the aging of trade receivables, reference is made to note 7 “Trade receivables”.

f. Equity risk

The A2A Group is exposed to equity risk limited to the holding of treasury shares held by A2A S.p.A., which at December 31, 2019 amounted to 23,721,421 shares corresponding to 0.757% of the share capital, which is made up of 3,132,905,277 shares.

From an accounting standpoint, as provided by IAS/IFRS, the purchase cost of treasury shares is recorded as decrease in shareholders' equity and not even if transferred will the eventual positive or negative difference, with respect to the purchase cost, have effects on the income statement.

g. Covenants compliance risk

Bonds, loans, leases and committed revolving bank lines present Terms and Conditions in line with the market for each type of instrument. In particular, they envisage: (i) negative pledge clauses under which the parent company undertakes not to pledge, with exceptions, guarantees on its assets or those of its directly held subsidiaries over and above a specific threshold; (ii) cross- default/acceleration clauses which entail immediate reimbursement of the loans in the event of serious non-performance; and (iii) clauses that provide for immediate repayment in the event of declared insolvency on the part of certain Group companies.

Bonds include (i) 2,951 million euro nominal (book value of 3,088 million euro at December 31, 2020) issued as part of the EMTN Programme, which provide to investors a Change of Control Put in the event of a change of control of the company resulting in a rating downgrade at sub-investment grade level in

the following 180 days (if within said 180 days, the company's rating should return to investment grade, the option may not be exercised); (ii) 98 million euro nominal (book value at December 31, 2020 111 million euro) relating to the private bond in yen with maturity 2036 with a Put right clause in favour of the investor in the event that the rating is lower than BBB- or equivalent level (sub-investment grade).

The loans stipulated with the European Investment Bank, with book value of 812 million euro, of which 420 million euro with maturity beyond 5 years, contain a Credit Rating clause (if rating below BBB- or equivalent level to sub-investment grade), and include a change of control clause of the parent company, with the right for the bank to invoke, upon notice to the company containing indication of the reasons, the early repayment of the loan.

The loans of the subsidiaries Linea Green, Flabrum and Fragea, whose book value at December 31, 2020 was 14 million euro, are secured by collateral on the property and plant financed. Furthermore, the Linea Green agreement includes a financial covenant, as shown in the table below.

Some ACSM-AGAM bank loans also include financial covenants, as shown in the relevant table below.

The committed revolving bank lines available, for a total of 740 million euro, provide a Change of Control clause which, in the event of a change of control of the parent company causing a Material Adverse Effect, allows the banks to request the facility to be extinguished and any amounts drawn down to be repaid.

At December 31, 2020, there was no situation of non-compliance with the covenants of the A2A Group companies.

A2A Group - Financial covenants at December 31, 2020

COMPANY	LENDER	LEVEL OF REFERENCE	LEVEL RECOGNIZED	DATE OF RECOGNITION
Linea Green	Unicredit	Residual debt/Equity <= 0.3	0.02	12/31/2020
ACSM-AGAM	UBI	Debt Service Coverage Ratio <=4.5	1.96	12/31/2020
		Gearing <=1.5	0.30	12/31/2020
ACSM-AGAM	Intesa San Paolo	Debt Service Coverage Ratio <=4.35	1.96	12/31/2020
		Gearing <= 1.1	0.30	12/31/2020
ACSM-AGAM	BEI	Available cash flow/net financial debt => 14.0%	28.4%	12/31/2020
		Financial debt/equity <= 75.0%	31.3%	12/31/2020
		Net financial debt/Ebitda <= 3.0	2.03	12/31/2020
ACSM-AGAM	Unicredit	Debt Service Coverage Ratio <=3.0	1.96	12/31/2020
		Gearing <=1.0	0.30	12/31/2020
Acsm-Agam Reti	Cassa DDPP	Debt Service Coverage Ratio <=4.5	1.96	12/31/2020
		Gearing <=1.2	0.30	12/31/2020

Analysis of forward transactions and derivatives

Tests were performed to determine whether these transactions qualify for hedge accounting in accordance with International Accounting Standard IFRS 9.

In particular:

- 1) transactions qualifying for hedge accounting under IFRS 9: can be analyzed between transactions to hedge cash flows (cash flow hedges) and transactions to hedge fair value of assets and liabilities (fair value hedges). For the cash flow hedges, the accrued result is included in gross operating margin when realized on commodity derivatives and in the financial balance for interest rate and currency derivatives, whereas the future value is shown in equity. For fair value hedge transactions, the impacts in the Income Statement are recorded within the same line of the financial statements;
- 2) transactions not considered as hedges for the purposes of IFRS 9, can be:
 - a. margin hedges: for all hedging transactions of cash flows or the market value in line with internal risk policies, the accrued result and future value are included in gross operating margin for commodity derivatives and in the financial balance for interest rate and currency derivatives;
 - b. trading transactions: the accrued result and future value are recognized above gross operating margin for commodities transactions and in financial income and expense for interest rate and currency transactions.

The use of derivatives in the A2A Group is governed by a coordinated set of procedures (Energy Risk Policy, Deal Life Cycle) which are based on industry best practices and designed to limit the risk of the Group being exposed to commodity price fluctuations, based on a cash flow hedging strategy.

The derivatives are measured at fair value based on the forward market curve at the balance sheet date, if the asset underlying the derivative is traded on markets with a forward pricing structure. In the absence of a forward market curve, fair value is measured on the basis of internal estimates using models that refer to industry best practices.

The A2A Group uses “continuous-time” discounting to measure fair value. As a discount factor, it uses the interest rate for risk-free assets, identified in the Euro Overnight Index Average (EONIA) rate and represented in its forward structure by the Overnight Index Swap (OIS) curve. The fair value of the cash flow hedges has been classified on the basis of the underlying derivative contracts in accordance with IFRS 9.

In compliance with the provisions of IFRS 13, the fair value of an over-the-counter (OTC) financial instrument is determined taking into account the non-performance risk. To quantify the fair value adjustment attributable to this risk, A2A has, in line with best market practices, developed a proprietary model called the “bilateral Credit Value Adjustment” (bCVA), which takes into account changes in the creditworthiness of the counterpart as well as the changes in its own creditworthiness.

The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA):

- the CVA is a negative component and contemplates the probability that the counterparty will default and at the same time that A2A has a receivable due from the counterparty;
- the DVA is a positive component and contemplates the probability that A2A will default and at the same time that the counterparty has a receivable due from A2A.

The bCVA is therefore calculated with reference to the exposure, measured on the basis of the market value of the derivative at the time of the default, the probability of default (PD) and the loss given default (LGD). This latter item, which represents the non-recoverable portion of the receivable in the case of default, is measured on the basis of the IRB Foundation Methodology as stated in the Basel 2 accords, whereas the PD is measured on the basis of the rating of the counterparties (internal rating based where not available) and the historic probability of default associated with this and published annually by Standard & Poor's.

Applying the above method did not result in significant changes in fair value measurements.

Instruments outstanding at December 31, 2020

A) On interest and exchange rates

The following analyses show the outstanding amounts of derivative contracts stipulated and not expired at the balance sheet date, by maturity.

millions of euro	Notional value (a)						Balance sheet Value (b)	Progressive effect to the Income statement at 12 31 2020 (c)
	Due within 1 year		Due in 1 to 5 years		Due over 5 years			
	to be received	to be paid	to be received	to be paid	to be received	to be paid		
Interest rate risk management								
cash flow hedges as per IFRS 9		27		45		2	(4)	
not considered hedges as per IFRS 9								
Total derivatives on interest rates		27		45		2	(4)	
Exchange rate risk management								
considered hedges as per IFRS 9								
- on commercial transactions								
- on non-commercial transactions						98	(15)	
not considered hedges as per IFRS 9								
- on commercial transactions								
- on non-commercial transactions								
Total derivatives on exchange rates						98	(15)	-

- (a) Represents the sum of the notional value of the elementary contracts that derive from any dismantling of complex contracts.
- (b) Represents the net receivable (+) or payable (-) recognized in the balance sheet following the measurement of derivatives at fair value.
- (c) Represents the adjustment of derivatives to fair value recognized over time in the Income Statement from stipulation of the contract to the present date.

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B) On commodities

The following is an analysis of the commodity derivative contracts outstanding at the balance sheet date set up for the purpose of managing the risk of the fluctuations in the market prices of commodities.

		Volume by Maturity			Notional Value	Fair Value	
		Due within 1 year	Due within two years	Due within five years		Balance sheet Value (*)	Progressive effect to Income statement (**)
Energy product price risk management	Unit of measurement	Quantity			Millions of euro		
A. a copertura di flussi di cassa (cash flow hedge) ai sensi IFRS 9 di cui:						24.0	-
- Electricity	TWh	11.2	0.4		162.4	0.2	
- Oil	Bbl					-	
- Coal	Tons					-	
- Natural Gas	TWh	2.7	0.2		45.8	7.2	
- Natural Gas	Millions of cubic metres	13.0			2.2	(0.1)	
- Exchange rate	Millions of dollars					-	
- Emission rights	Tons	1,898,000	153,000		50.4	16.7	
B. considered fair value hedges as per IFRS 9						-	-
C. not considered fair value hedges as per IFRS 9 of which:						(1.2)	(9.9)
C.1 hedge margin						(0.5)	(0.5)
- Electricity	TWh						
- Oil	Bbl						
- Natural Gas	Degrees day						
- Natural Gas	Millions of cubic metres						
- CO ₂ Emission rights	Tons	75,000			2.0	(0.5)	(0.5)
- Exchange rate	Millions of dollars						
C.2 trading transactions						(0.7)	(9.4)
- Electricity	TWh	37.3	7.4	0.3	2,236.8	(4.8)	(9.1)
- Natural Gas	TWh	121.3	29.2	2.4	2,272.6	4.1	(0.8)
- CO ₂ Emission rights	Tons	120,000			3.7	-	0.5
- Environmental Certificates	MWh						
- Environmental Certificates	Tep						
Total						22.8	(9.9)

(*) Represents the net receivable (+) or payable (-) recognized in the balance sheet following the measurement of derivatives at fair value.

(**) Represents the adjustment of derivatives to fair value recognized over time in the Income Statement from stipulation of the contract to the present date.

Financial and operating results for derivative transactions at December 31, 2020

Effects on the balance sheet

The following table shows the balance sheet figures at December 31, 2020, for derivative transactions.

millions of euro	NOTE	TOTAL
ASSETS		
NON-CURRENT ASSETS		-
Other non-current assets - Derivatives	5	-
CURRENT ASSETS		426
Other current assets - Derivatives	8	426
TOTAL ASSETS		426
LIABILITIES		
NON-CURRENT LIABILITIES		19
Other non-current liabilities - Derivatives	20	19
CURRENT LIABILITIES		403
Trade payables and other current liabilities - Derivatives	21	403
TOTAL LIABILITIES		422

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Effect on the income statement

The following table sets out the income statement figures at December 31, 2020 arising from the management of derivatives.

millions of euro	Note	Realised during the year	Change in fair value during the year	Amounts recognized in the income statement
REVENUES	25			
REVENUES FROM THE SALE OF GOODS				
<i>Energy product price risk management and exchange rate risk management on commodities</i>				
- considered hedges as per IFRS 9		36	-	36
- not considered hedges as per IFRS 9		34	(770)	(736)
Total revenues from the sale of goods		70	(770)	(700)
OPERATING EXPENSES	26			
Expenses for raw materials and services				
<i>Energy product price risk management and exchange rate risk management on commodities</i>				
- considered hedges as per IFRS 9		(88)	-	(88)
- not considered hedges as per IFRS 9		(60)	761	701
Total costs for raw materials and services		(148)	761	613
Total recognized in Gross operating income (*)		(78)	(9)	(87)
FINANCIAL BALANCE	31			
Financial income				
<i>Interest rate risk management and equity risk management</i>				
Income on derivatives				
- considered hedges as per IFRS 9		-	-	-
- not considered hedges as per IFRS 9		-	-	-
Total		-	-	-
Total financial income		-	-	-
Financial expenses				
<i>Interest rate risk management and equity risk management</i>				
Expenses on derivatives				
- considered hedges as per IFRS 9		(6)	-	(6)
- not considered hedges as per IFRS 9		-	-	-
Total		(6)	-	(6)
Total financial expenses		(6)	-	(6)
TOTAL RECOGNIZED IN FINANCIAL BALANCE		(6)	-	(6)

(*) The figures do not include the effect of the net presentation of the negotiation margin of trading activities.

Classes of financial instruments

To complete the analyses required by IFRS 7 and IFRS 13, the following table sets out the various types of financial instrument that are to be found in the various balance sheet items, with an indication of the accounting policies used and, in the case of financial instruments measured at fair value, an indication of where changes are recognized (income statement or equity).

The last column of the table shows the fair value of the instrument at December 31, 2020, where applicable.

millions of euro

millions of euro		Criteria to measure the reported amount of financial instruments				
Note	Financial instruments measured at fair value with changes recognized in:			Financial instruments measured at amortized cost	Amount as stated in the Consolidated balance sheet at 12 31 2020	Fair value at 12 31 2020 (*)
	Income statement	Equity				
	(1)	(2)	(3)	(4)		
ASSETS						
Other non-current financial assets						
Financial assets measured at fair value of which:						
- unlisted	7				7	n.a.
- listed					-	-
Financial assets held to maturity				1	1	1
Other non-current financial assets				28	28	28
Total other non-current financial assets	3				36	
Other non-current assets	5			27	27	27
Trade receivables	7			2,030	2,030	2,030
Other current assets	8	396	30	259	685	685
Current financial assets	9			11	11	11
Cash and cash equivalents	11			1,012	1,012	1,012
LIABILITIES						
Financial liabilities						
Non-current and current bonds	17 and 22		112	2,976	3,088	3,088
Other non-current and current financial liabilities	17 and 22			1,409	1,409	1,409
Other non-current liabilities	20		19	127	146	146
Trade payables	21			1,552	1,552	1,552
Other current liabilities	21	6	397	463	866	866

(*) The fair value has not been calculated for receivables and payables not related to derivative contracts and loans as the corresponding carrying amount is a good approximation to this.

(1) Financial assets and liabilities measured at fair value with the changes in fair value recognized in the income statement.

(2) Cash flow hedges.

(3) Financial assets available for sale measured at fair value with profit/loss recognized in equity.

(4) Loans and receivables and financial liabilities measured at amortized cost.

Fair value hierarchy

IFRS 7 and IFRS 13 require that fair value classification of financial instruments to be based on the quality of the input source used to calculate the fair value.

In particular, IFRS 7 and IFRS 13 set out three levels of fair value:

- level 1: this level consists of financial assets and liabilities for which fair value is based on (unadjusted) prices for identical assets or liabilities quoted on active official or over-the-counter markets;
- level 2: this level consists of financial assets and liabilities for which fair value is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly;
- level 3: this level consists of financial assets and liabilities for which fair value is based on unobservable market data. This level includes instruments measured on the basis of internal estimates made using proprietary methods based on best sector practice.

An analysis of the assets and liabilities included in the three fair value levels is set out in the following fair value hierarchy table.

millions of euro	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets measured at fair value	3		7		7
Other current assets	8	426	-		426
TOTAL ASSETS		426	7	-	433
Non-current financial liabilities	17	110			110
Other non-current liabilities	20		19		19
Other current liabilities	21	403	-	-	403
TOTAL LIABILITIES		513	19	-	532

Sensitivity analysis for financial instruments included in level 3

As required by IFRS 13, the following table sets out the effects arising from changes in the unobservable parameters used in calculating fair value for financial instruments included in level 3 of the hierarchy.

FINANCIAL INSTRUMENT	PARAMETER	PARAMETER CHANGE	SENSITIVITY (Millions of euro)
Commodity Derivatives	Probability of Default (PD)	1%	0.00
Commodity Derivatives	Loss Given Default (LGD)	25%	0.00
Commodity Derivatives	Underlying interconnection capacity zonal Italy (CCC)	1%	0.02

7) Main regulatory provisions regarding concessions and agreements in the sectors of activity in which the A2A Group operates

Large hydroelectric derivation concessions (> 3 MW)

The national regulations governing hydroelectric concessions were originally dictated by the Royal Decree December 11, 1933, no. 1775, which was based on the granting of concessions by the State in a long-term logic, also in order to allow the concessionaires to amortize the significant investments necessary for the construction of the plants. With a view to transferring the concessions and the ownership of the relative works to the State, Article 25 of the R.D. 1775/1933 cit. provided that:

- all the collection, regulation and forced duct works and the discharge channels (wet works) passed free of charge on state property;
- any other building, machinery, plant for the use, transformation and distribution of the concession (dry works) could be acquired by the State by means of payment of a price equal to the estimated value of the work material, calculated at the time of entry into possession, abstracting from any assessment of the income that can be derived.

This regulatory framework was subsequently superseded first by electricity sector nationalization Law no. 1643/1962, which resulted in Enel taking over the majority³ of hydroelectric concessions with the relative recognition of an unlimited duration, and then by the liberalisation of the electricity market as a result of Legislative Decree no. 79/1999(implementing Directive 96/92/EC), which introduced with art. 12 (and subsequent amendments) the principles of:

- the temporariness of the concessions, establishing a validity period (2029) for concessions without expiration because they are owned by Enel and assigning the term of December 31, 2010 for concessions that have already expired or are expiring by that date;
- contestability of concessions in the event of expiration, forfeiture or renunciation, providing, no later than 5 years before the expiration, the call for tenders by the competent administration (i.e. the Region) for the allocation of the same for consideration.

Pending the reallocation of concessions, Legislative Decree 79/1999 (article 12, paragraph 8bis) provides that the outgoing concession holder is to continue to operate the concession under the same conditions as those laid down in the regulations and specifications in force. In this stalemate, some Regions have enacted laws aimed at regulating the “temporary continuation of operations” for expired concessions, also providing for the imposition of an additional fee.

Conversion Law no. 12/2019, converting Decree Law December 14, 2018 no. 135 (Simplification Law Decree), art. 11-quater attributed to the Regions the power to regulate, by means of their own laws, to be adopted by March 31, 2020, the procedures and criteria for the allocation of concessions, the process for which must be completed by 2023 with the entrustment of economic operators through tenders or public/private companies or through forms of partnership. The duration of the new concessions will be between 20 and 40 years, with the possibility of extending the maximum period by a further 10 years depending on the complexity of the project proposal and the amount of investment.

The new rule also provides that a specific regional measure (after consulting ARERA) will define:

- a State fee to be paid on a six-monthly basis to the Regions, comprising a fixed component linked to the average nominal power of the concession and a variable calculated as a percentage of normalized revenues;
- the possible obligation for the concessionaires to supply annually and free of charge 220 kWh per kWh of concession power for at least 50% destined to public services of the provincial territories involved in the derivation.

For concessions expired or expiring on December 31, 2023, which are temporarily continued, an additional fee is also charged.

In terms of compensation to outgoing operators, the rule prescribes:

- for wet works, the transfer without compensation of ownership of the Regions, and in the case of investments - provided they are defined in the deed of concession or authorized by the granting body - an amount equal to the value of the part of the asset not depreciated;
- for dry works, the recognition of a residual value derived from accounting records or certified appraisal. In the event of inclusion in the project of the incoming concessionaire, movable and immovable property will be treated differently.

3 With the exception of derivations in the ownership of self-producers, municipal companies and local authorities.

In view of this new regulatory framework, on March 7, 2019, the European Commission sent a second complementary letter of formal notice⁴ to Italy, complaining in particular that the Italian authorities made continuous extensions of expired concessions, and imposed on the incoming concessionaire the obligation to pay for “dry” works an indemnity higher than the non-depreciated value of the assets, in asymmetry of treatment in case of takeover by the Regions in the ownership of such assets.

On May 10, 2020, with reference to the criticisms raised by the European Commission, the Italian Government sent a specific letter of reply.

ARERA, pursuant to art. 12, paragraph 1-quinquies, of Law no. 12/2019, with Resolution no. 490/2019/1/ approved the preparatory Guidelines for the issue of a non-binding opinion on the regional legal schemes regarding state property fees, which must be issued within 20 days from the date of receipt of said scheme (in the event that ARERA's instructions have been complied with) and within 40 days in other cases. The Authority, in order to ensure regulatory uniformity, has issued indications in relation to the variable part⁵ of the state fee and the free transfer of energy to the Regions⁶.

In compliance with the provisions of the legislative framework in force and in line with the provisions of the aforementioned ARERA Resolution, the Lombardy Region, with art. 31 of Regional Law 23/2019 di Assestamento al Bilancio (Budget Reconciliation) 2020-22, has defined, starting from 2020, the obligation to supply free energy to the Region by all holders of concessions of large derivation, whether they are exercised before or after expiry, providing both the physical delivery and its monetization (even in full) to be calculated on the basis of an average hourly zonal price weighted on the quantity of electricity fed into the grid by the plant.

Moreover, in April 2020, the Lombardy Region approved Regional Law no. 5/2020, which regulates the procedures for assigning concessions for large hydroelectric derivations and determines the state fee based on the new two-component structure⁷, in addition to the additional fee payable by the outgoing concessionaire for the temporary continuation of expired concessions until the award procedures are completed (and, in any case, no later than July 31, 2024).

In terms of the way in which concessions are awarded, the ordinary procedure is the public procedure, while mixed public-private companies and forms of partnership are allowed as a secondary option, subject to a reasoned decision. The duration of the new concessions is set equal to a period between 20 and 40 years, which can be increased up to a maximum of 10 years depending on the complexity of the project proposal presented and the amount of the investment.

The law defines the criteria for the acquisition of the assets pertaining to the concession (see “dry works” and “wet works”) by the Region and the reconnaissance activity aimed at the subsequent tendering, such as the possible compensation due to the outgoing operator with particular reference to the share of the residual value of the assets not yet depreciated.

The large-scale derivation hydroelectric concessions held by A2A S.p.A. located in Valtellina (with a nominal concession capacity of over 200 MW) have for the most part expired: the Lombardy Region with Regional Council Resolution (D.G.R.) no. X/4182 of December 30, 2020 allowed the temporary continuation of the year until December 31, 2021⁸, establishing the payment of an additional fee and the non-application of the partial exemption from the state fee on the Premadio ⁹, Grosio, Lovero and Stazzona plants (both forecasts challenged by the company¹⁰). Other A2A S.p.A. concessions (plants in Mese, Udine and Calabria with a total nominal concession capacity of about 345 MW), originally owned by Enel, expire in 2029. The three large-scale derivations of Linea Green S.p.A. (Resio, expired and under temporary continuation until December 31, 2020, Mazzuno and Darfo not yet expired), as well as the concession of Gravedona of ACSM-AGAM S.p.A. expiring in 2029 are also added.

4 Again on March 7, 2020, the Commission also issued formal notice to Austria, France, Germany, Poland, Portugal, the United Kingdom and Sweden to “ensure that public contracts in the hydroelectric energy sector are awarded and renewed in accordance with EU law”.

5 The variable component of the fee should be equal to a percentage, in any case defined by the Regions, of the sum of the products between the hourly quantity of electricity fed into the grid and the corresponding hourly zonal price recorded on the Day-Ahead Market (MGP), while the fixed component should derive from environmental and/or water-use-related assessments that are outside the Authority's competence.

6 On this issue, the Authority suggested preferring the monetization of free energy instead of its physical supply, basing the valorization on the hourly zonal price recognized to the plant, to be determined as final balance for the calendar year, as the average of the hourly zonal prices formed on the MGP, weighted on the quantity of energy fed into the grid on an hourly basis.

7 With reference to the fixed component, the Council Resolution provided for 35 €/kW from 2021.

8 Only for the Sernio-Stazzona plant has the concession been extended until June 30, 2021.

9 On this subject, we note Sentence no. 15990/2020 of the Court of Cassation, which rejected the reasons put forward by A2A S.p.A., including, in particular, that relating to the revocation - ordered by the Region - of the benefit of the partial exemption from state fees previously benefited from for Premadio 1.

10 For further information, reference should be made to the section entitled “Update of the main legal and tax disputes still pending.

Concessions for thermoelectric power plants

As far as concessions for thermoelectric power plants are concerned, the relevant regulations have evolved in a very heterogeneous manner. For example, with reference to concessions for the derivation of public water for industrial use, the discipline was initially defined by Law no. 2644 of August 10, 1884 and by Royal Decree 1775/1933 to subsequently have an outline on a more local basis also through agreements with specific consortia of reclamation and irrigation.

The granting bodies may be identified alternatively in the Region and in the Province for concessions for the derivation of public water and for those relating to the occupation of state-owned areas and in the Port Authorities for concessions relating to the occupation of maritime state-owned areas.

A2A Energiefuture S.p.A. and A2A gencogas S.p.A. hold the following types of concessions for the operation of their own thermoelectric power plants:

- concessions for the derivation of public water: (i) for the cooling of thermoelectric power plants; (ii) for industrial use; (iii) for other uses;
- concessions for the occupation of: (i) state-owned areas; (ii) maritime state-owned areas.

Distribution of natural gas

The regulations governing concessions for the distribution of natural gas through local networks, initially contained in the deeds of award stipulated with the municipalities in implementation of laws of principle dated back to the early 1900s, have been revised by articles 14 and 15 of Legislative Decree 164/2000 (transposing Directive 98/30/EC), which defined the criteria for standardizing the sector.

In particular, (i) a maximum duration of 12 years for concessions at full capacity was established, (ii) the award of the service by local authorities through a public tender and (iii) the relationship with the operator is regulated by a specific standard contract approved by ministerial decree containing, in particular, the procedures for performing the service, the quality objectives, the economic aspects and the conditions for early termination of the company for failure by the operator.

A transitional period is also provided for in order to put an early end to the licensing relationships in progress at the date of entry into force of Legislative Decree 164/2000 so as to allow effective implementation of the reform.

Subsequently, in implementation of Law Decree 159/2007, according to which the tenders for the award of the gas distribution service must no longer be carried out by individual municipalities but by Minimum Territorial Areas (ATEM), the Ministerial Decree MiSE of January 19, 2011 identified 177 ATEM, while the subsequent Ministerial Decree of October 18, 2011 defined the municipalities belonging to each ATEM.

The reform process was completed with the entry into force of Ministerial Decree 226 of November 12, 2011, which over the years has been subject to numerous innovations extended also to Legislative Decree 164/2000, which defined the tender criteria and procedures, as well as the methods for determining the residual industrial value of existing plants dedicated to providing the service. This decree also indicated for each ATEM the terms within which the Contracting Authority has the obligation to start the tender procedure. The Municipality acts as the granting body of the concession, which continues even if it ceases as a result of the aforementioned early termination, until the full performance of the tenders for ATEM¹¹.

As far as the A2A Group is concerned, the natural gas distribution concessions are held by the companies Unareti S.p.A., Azienda Servizi Valtrompia S.p.A., LD Reti S.p.A. (LGH Group), Le Reti S.p.A.¹², Reti Valtellina Valchiavenna S.r.l. and Serenissima Gas S.p.A. (three companies of the ACSM-AGAM Group) and RetiPiù S.r.l.¹³ (AEB Group): the main contracts relate to the ATEM of Milan 1 - City and Plant of Milan (the assignment of which to Unareti S.p.A. was on September 5, 2018 through a tender pursuant to Ministerial Decree 226/2011¹⁴) and the provincial capitals of Brescia, Bergamo, Varese, Cremona, Lodi, Lecco, Sondrio and Monza-Brianza (as well as numerous municipalities, located mainly in the provinces of Brescia, Bergamo, Chieti, Como, Cremona, Lecco, Monza-Brianza, Piacenza, Pavia, Salerno, Trento, Treviso, Udine, Varese and Venice).

11 When the ATEM tenders will be completed, the granting body can be identified alternatively in: 1) provincial capital (in the case of ATEM with capital), 2) most populous municipality (in the case of ATEM without capital), 3) network asset company (in the case of ATEM whose municipalities have decided to set it up).
12 The company was created on January 1, 2020 from the merger between ACSM-AGAM Reti Gas Acqua S.p.A. and Lario Reti Gas S.r.l.
13 Following the industrial integration with A2A, the municipalities present in the ATEMs of Milan 4, Bergamo 1, Bergamo 2, Bergamo 3 and Bergamo 5 (around 78,000 PDR) were sold by Unareti S.p.A. to RetiPiù S.r.l., with effect from November 1, 2020.
14 For details on the appeal filed by 2i Reti Gas before the Lombardy Regional Administrative Court and on Sentence 05370/2020 of the Council of State (published on September 7, 2020), which sanctioned the legitimacy of the awarding of the tender by Unareti S.p.A., reference should be made to the Paragraph "Update of the main legal and tax disputes still pending".

Electricity distribution

Electricity distribution activities are carried out under a thirty-year concession granted by the Ministry of Economic Development for each municipal area, pursuant to art. 9 of Legislative Decree 79/1999. The concession relation includes the management of the distribution networks and the operation of the connected plants, ordinary and extraordinary maintenance, planning and identification of development interventions.

As far as the A2A Group is concerned, the electricity distribution concessions, all expiring in 2030, are held by Unareti S.p.A., Camuna Energia S.r.l., LD Reti S.p.A. (LGH Group) and Reti Valtellina Valchiavenna S.r.l. (ACSM-AGAM Group) and RetiPiù S.r.l. (AEB Group) and concern the municipalities of Milan, Rozzano, Brescia, Cremona, Sondrio and Seregno, in addition to numerous municipalities in the province of Brescia and Sondrio.

Integrated Water Service (SII)

In accordance with the provisions of Legislative Decree 152/2006, the SII is organized on the basis of Optimal Territorial Ambits (ATO) defined by the Regions and, as a rule, coinciding with the provincial territory. In compliance with the scope plan and the principle of a single management, the Ambit Government Entity (EGA) decides on the form of management (award by tender, mixed public-private company and in house providing) and, consequently, provides for the award, for 30 years, of the SII in compliance with national regulations on the organization of local public services to networks of economic importance. The direct award may be made to entirely public companies that meet the requirements of European law and are in any case owned by the local authorities covered by the ATO.

The SII is applied art. 34 of Law Decree 179/12 supplemented by Law no. 115 of July 29, 2015, art. 8, paragraph 1, which establishes mandatory principles for local authorities for the award of services and regulates the transitional period of pre-existing awards validly absent. In particular, it is envisaged that the award of services provided by listed companies and subsidiaries of listed companies (such as those held by subsidiaries of A2A S.p.A.) will cease upon expiry of the service contract or other acts governing the relationship.

LD 133/2014 (Unlock Italy Decree) provided that, at the time of first application, the EGA, in order to ensure the achievement of the principle of single management within the ATO, provide for the award to the single manager of the area at the end of the existing management, operating on the basis of an award approved in accordance with the legislation pro tempore in force and not declared ceased pursuant to law.

The legislator provided for certain exceptions to the establishment of the single operator by the EGA: in particular, in the event that the ATO coincides with the regional territory, it is allowed to award the SII in territorial areas, however, not less than the territory corresponding to the provinces or metropolitan cities.

The A2A Group carries out the SII, through its subsidiaries and safeguarded in accordance with Legislative Decree 152/2006, in Brescia and in several municipalities of the province by mean of A2A Ciclo Idrico S.p.A. and Azienda Servizi Valtrompia S.p.A.. And by mean of Le Reti S.p.A. (ACSM-AGAM Group) in Varese and Como and their provinces.

District heating

In Italy, there is no comprehensive legislative framework defining the way in which the district heating service is to be awarded, since neither the national legislator nor the administrative case-law in its rulings have unambiguously considered district heating as a local public service. In Lombardy, an initial discipline is dictated by Regional Law 26/2003.

In such a poorly defined regulatory context, the local authority that considers this service as a local public service regulates district heating using licensing schemes and, in previous years, also authorizers. In other cases, the municipalities do not assume district heating as a public service and, therefore, regulate different aspects such as the use of the subsoil.

In cases where district heating is used as a public service, the relationship between the municipality and the service operator is governed by agreements or service contracts with which the granting body has awarded the management of the service within the municipality, providing for a fee and certain rules for the provision of the service, for a period that is ordinarily long in view of the underlying investments, also conferring exclusive management.

As far as the A2A Group is concerned, the service is managed by the companies A2A Calore & Servizi S.r.l., Linea Green S.p.A. (LGH Group), Como Calor S.p.A. and Varese Risorse S.p.A. (ACSM-AGAM Group) and Gelsia S.r.l. (AEB Group) in Bergamo, Brescia, Milan, Cremona (as well as in some municipalities in the relevant provinces), Lodi, Varese, Como, Monza, Seregno and Giussano.

Public lighting

Even for public lighting, as for district heating, there is no detailed regulatory framework. Local authorities that also identify this service as a local public service of economic importance must comply with art. 34 of LD 179/2012 and subsequent amendments and, therefore, award the service in accordance with EU principles.

The public lighting service includes the management of systems (operation, maintenance and periodic checks) as well as the supply of electricity to supply the lighting points, as well as the implementation of modernization and energy requalification interventions.

As recently highlighted by the Annex to Ministerial Decree of March 28, 2018 that disciplines the “Minimum environmental criteria of public lighting services” (CAM), in implementation of a general principle of the law, the duration of the service to be awarded must be commensurate with the activities included in the contract, the degree of economic exposure envisaged and, therefore, the time needed to amortize the investment plan.

The A2A Group manages the public lighting service¹⁵ through A2A Illuminazione Pubblica S.p.A.¹⁶ in Milan and in eight province municipalities, Brescia and Bergamo, plus the municipalities of Bisignano, Busto Arsizio, Casalmaggiore, Castelletto sopra Ticino, Crevaladossola, Fiorenzuola d'Arda, Stradella and Volpiano, while, through certain companies of the ACSM-AGAM Group, in the municipalities of Cantello, Costa Masnaga, Melzo, Nova Milanese, Pero, Robbiate, Zibido San Giacomo and Messina (Varese Risorse S.p.A.), as well as in the municipalities of Sernio, Sondrio, Tirano, Valdisotto and partly in Sondalo (Reti Valtellina Valchiavenna S.r.l.). In addition, RetiPiù S.r.l. (AEB Group) operates the public lighting service concession in the municipality of Seregno¹⁷.

Management of the municipal hygiene service

Environmental services are related to the case of local public services of economic importance and the procedures for awarding them are governed by art. 202 of Legislative Decree 152/2006 and by art. 34 of Law Decree 179/2012.

The services of collection, transport, sweeping and washing of roads, recovery and disposal of waste are regulated by a specific service contract with the granting Municipality aimed at defining the essential elements of the award including the duration of management, the economic aspects of the contractual relationship as well as the organizational and management methods of the service and the quantitative and qualitative levels of the services provided. In defining the concessionary relationship, the Granting Body takes into account the achievement of objectives of efficiency, effectiveness and cost-effectiveness of the service.

Law 205/2017 (Budget Law 2018) entrusted ARERA with the regulatory and control competences in the sector of waste, including differentiated, municipal and assimilated waste: with Resolution 443/2019/R/rif, ARERA intervened on the definition of the criteria for the recognition of the efficient operating and investment costs of the integrated waste service for the period 2018-2021, adopting the Waste Tariff Method (MTR).

With particular reference to the Lombardy Region, it should be noted that:

- it has organized integrated waste management using the provisions of art. 200, paragraph 7, of Legislative Decree 152/2006 without the establishment of any Optimal Territorial Area;
- the responsibility for awarding the service is directly of the municipalities that exercise it individually or in an associated form.

In Lombardy, the municipal hygiene service is provided by AMSA S.p.A., Aprica S.p.A., LA BI.CO DUE S.r.l. (controlled by A2A Ambiente S.p.A.) and by Linea Gestioni S.p.A. (LGH Group), by Acsm Agam Ambiente S.r.l. (ACSM-AGAM Group) and by Gelsia Ambiente S.r.l. (AEB Group); the main awards concern the municipalities of Milan, Brescia, Bergamo, Varese¹⁸, Como, Cremona and Lodi with different deadlines based on the deeds governing the relationship with the individual municipalities.

15 Inclusive for some municipalities of the management of traffic lights and votive lamps.

16 The company has been controlled by Ambiente Energia Brianza S.p.A. (AEB Group) since November 1, 2020 following the completion of the industrial integration with A2A S.p.A..

17 In addition, there is a contract for the routine maintenance of more than 5,000 lighting points in the municipality of Desio (MB).

18 Currently, the management of the municipal sanitation service in the Municipality of Varese is under a technical extension of the original Service Contract pending a ruling by the Milan Regional Administrative Court in a dispute for the reassignment to an economic operator of the first tender following the early termination ex lege of the same Contract by a ruling of the Council of State issued on July 21, 2020, concerning the application of article 34, paragraph 22 of Law 221/2012, as amended.

8) Update of the main legal and tax disputes still pending

Adequate provisions are provided where necessary for the disputes and litigation described below. It is noted that if there is no explicit reference to the presence of a provision, the Group assessed the corresponding risk as possible without appropriating provisions in the financial statements. It should be noted that certain disputes illustrated in previous financial statements and still pending are not further reported due to the absence of updates or the cessation of the previous risk situation.

A2A S.p.A.

Consorzio Eurosviluppo S.c.a.r.l./Ergosud S.p.A. + A2A S.p.A. - Civil Court of Rome

On May 27, 2011, Consorzio Eurosviluppo Industriale S.c.a.r.l. served a writ on Ergosud S.p.A. and A2A S.p.A. with the following claims: (i) compensation for damages, of both a contractual and extra-contractual nature, jointly, or alternatively exclusively and separately, in the amount of 35,411,997 euro (of which 1,065,529 euro as the residual portion of their share of the expenses); (ii) compensation for damages for the stoppage at the worksite and the failure to return the areas of pertinence to the Consortium.

In the filing of appearance Ergosud S.p.A. and A2A S.p.A. called for the request to be rejected in full because it is unfounded in its merit and in its substance, and pointed out: (i) the lack of the right of the Consortium to institute proceedings as it is in a state of bankruptcy, (ii) the lack of the right of the Consortium to institute proceedings for the damages allegedly suffered by Fin Podella at the item "anticipation of program contract" for 6,153,437 euro and the damages allegedly suffered by Conservificio Laratta S.r.l. for 359,000 euro.

After lengthy proceedings, Sentence no. 13961 was filed on October 13, 2020, rejecting the appeal and ordering the claimants to pay the costs of the litigation, after having ascertained Ergosud's contractual fulfilment and the Consortium's non-fulfilment on the basis of documents and by means of the experts (CTU). On the other hand, the ruling rejected the request made by Ergosud and A2A to order SFC to pay damages as a result of the Consortium's non-fulfilment.

Carlo Tassara: lawsuit for damages against EDF and A2A S.p.A. on the reorganization of Edison

On March 24, 2015, Carlo Tassara S.p.A. notified A2A, Electricité de France (EDF) and Edison a summons requesting the Court of Milan to condemn A2A and EDF to compensation for damages allegedly suffered by Carlo Tassara, in its capacity as minority shareholder of Edison, in relation to the mandatory tender offer launched by EDF on Edison shares consequently to the transaction by which, in 2012, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

Until 2012, in fact, A2A and EDF held joint control of Edison S.p.A. Edison, in turn, held 50% of Edipower S.p.A. (the remaining capital of Edipower was held 20% by Alpiq, 20% by A2A and the remaining 10% by Iren).

In the 2012 transaction, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

In the summons notified, Carlo Tassara complained that, in the transaction, EDF and A2A agreed on a mutual "discount" on the price paid by EDF for the purchase of Edison shares, on the one hand, and on the price paid by A2A for the purchase of 70% of Edipower, on the other. This discount was expected to be the result of abusive conduct by EDF and A2A as shareholders of Edison and the violation, among other things, of the regulations on transactions with related parties. This - according to Carlo Tassara - was expected to allow maintaining artificially low the price of the Edison shares paid to A2A and consequently the tender offer price paid to minorities of Edison (which by law was expected to be equal to that paid to A2A).

However, in 2012, A2A and EDF had voluntarily subjected the Transaction to the prior examination of Consob precisely in order to confirm the correctness of the tender offer price. Following extensive examinations, Consob had deemed that a compensatory mechanism could be detected in the transaction as a whole (i.e. between the sale of Edipower on the one hand and the sale of Edison shares on the other) and that therefore the tender offer price was to be increased from 0.84 euro to 0.89 euro per share.

In light of said decision, the parties had increased the sale price of the shareholding in Edison based on the price of 0.89 euro per share, for a total increase of around 84 million euro. EDF launched the tender offer at 0.89 euro per share.

Carlo Tassara resorted to Consob in order to further increase the price of the tender offer, but Consob rejected the request.

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In addition, pending the tender offer, Carlo Tassara challenged before the TAR the tender offer document and the related resolution of approval by Consob requesting suspensions thereof for reasons of urgency. However, the TAR postponed the decision on the suspension to a date following the closing of the tender offer and, as a result of this, Carlo Tassara adhered to the tender offer and waived the cautionary request.

The writ of summons did not quantify the damage allegedly suffered by Carlo Tassara as a result of such transactions. However, with brief on February 20, 2017, Carlo Tassara requested that the court have an expert witness to calculate the damages (specifying that they be quantified in the alleged difference between the tender offer price and the market value that the Edison shares had previously). Carlo Tassara also filed an appraisal in which such damages were quantified in a total amount between 197 and 232 million euro, amount to calculate the compensation due from each of the companies that will be considered responsible by the judge.

After several postponements justified also by modifications of the judge, on October 17, 2018, the judge rejected the requests for investigation of the plaintiffs, setting March 19, 2019 as the hearing for clarification of conclusions. The Company has filed its pleadings within the time limits and the ruling is pending. The Group, having fulfilled the requirements of the regulations in force, does not consider likely the risk for which it has not allocated any provisions.

Derivations of public water for the production of hydroelectricity in Lombardy

A number of appeals are still pending in which A2A and Linea Green have challenged the measures issued by the Lombardy Region to regulate the continuation of water derivation for hydroelectric use even after the expiry of their respective concessions.

In particular, D.G.R. (Regional Council Resolution) of Lombardy no. 5130-2016 ordered, by implementing paragraph 5 of art. 53-bis of Regional Law 26/2003 introduced by Regional Law 19/2010, the subjection of the Lombardy hydroelectric concessions already expired to an “additional fee” established “provisionally” at 20 €/kW of nominal power of concession, and reserved the request for settlement at the outcome of the assessments by the regional offices regarding the profitability of expired concessions. The additional fee was imposed retroactively from the original expiry of each concession; therefore, for the Grosotto, Lovero and Stazzona concessions, it would be effective from January 1, 2011, for the Premadio 1 concession from July 29, 2013 and for the Grosio concession from November 15, 2016.

A2A and Linea Green, which have always contested, also in the courts, the legitimacy, also constitutional, of article 53-bis, paragraph 5, of Regional Law 26/2003, challenged, together with other operators, the D.G.R. 5130-2016 before the High Court of Public Waters, the related and consequent measures that governed the conditions for the temporary continuation of each concession, and which, where provided for, ordered the revocation of the exemption of part of the State fee.

At the competent offices, A2A challenged Sentence no. 65/2020, by means of which TSAP rejected the appeal brought by A2A in relation to the first resolutions by which the Lombardy Region regulated the temporary continuation of the Grosotto, Lovero and Stazzona concession, thereby inducing A2A to make a prudent assessment of the remedies available at the competent offices. Other disputes related to other concessions and other regional decisions are also still ongoing.

The provisions of the Regions concerning the temporary continuation of expired or expiring concessions could, as from 2019, be justified by the provisions introduced by the Conversion Law no. 12/2019 of Legislative Decree no. 135/2018, the constitutional compatibility of which is nevertheless controversial. In this last regard, it should be pointed out that A2A and Linea Green recently appealed before the TSAP for the annulment of General Director Decree (D.D.G.) no. 10544/2019 by means of which the Lombardy Region ascertained and determined the amounts allegedly owed by the concessionaires as additional fees for 2019, disputes subsequently integrated with reference to the additional fee for the year 2020, and with these appeals, they also requested referral to the Constitutional Court of a matter of constitutional legitimacy in relation to the aforementioned provisions introduced by the law converting Decree Law Simplifications with regard to hydroelectric concessions.

Also Regional Law 5/20 issued by the Lombardy region in implementation of Law 12/2019 has been submitted for constitutionality review by the Government and the hearing is set for May 11, 2021.

For disputes relating to public water derivation fees, the Company allocated adequate provisions for risks at December 31, 2020, on a prudent basis, and also taking into account the payment - subject to any subsequent repayment upon the final outcome of the respective legal proceedings - of certain positions, for the sole purpose of avoiding compulsory collection proceedings and thus defusing the litigation.

A2A Energiefuture S.p.A.

Monfalcone Plant Investigation (RNR 195/17 Public Prosecutor of Gorizia)

On March 08 and 09, 2017, following orders of the Public Prosecutor of Gorizia, the Monfalcone Plant of A2A Energiefuture S.p.A. was inspected during which surveys and samplings were performed (on coal in stock, on the ashes, on fume treatment residues, emissions from the chimney) and documentary acquisitions (on the servers of the emissions monitoring system, on fuel analysis forms, etc.). On the same date, the guarantee information has been notified to three employees, regarding an investigation for the offences referred to in Article 452 bis of the Italian Criminal Code. Environmental pollution from alleged conduct up to October 2016. The suspect employees appointed trusted defenders.

Subsequently, between December 2017 and January 2018, and then in December 2018, the Public Prosecutor of Gorizia proceeded with the acquisition of additional documentation at the plant.

The proceeding is still in the stage of the preliminary investigations and it shall be necessary to wait for the results of the investigations ordered by the Prosecutor of Gorizia that requested an extension of the terms for the investigations.

No further action has been currently notified by the Prosecutor.

Linea Ambiente S.r.l. – Grottaglie landfill

Court of Taranto - Criminal Proceeding RGNR 2785/18

On March 14, 2019, an employee of A2A Ambiente S.p.A., seconded to Linea Ambiente S.r.l. as the company's Chief Operating Officer, was remanded in custody as part of investigations into the offences referred to in articles 319 and 321 of the Italian Criminal Code with reference to an alleged bribery connected with the issue of Executive Decision no. 45 dated April 5, 2018 by the Province of Taranto for the orographic optimization of the Linea Ambiente S.r.l.'s Grottaglie landfill.

On August 1, 2019, the Court of Taranto - Office of the Judge for Preliminary Investigation - at the request of the Prosecutor's Office, ordered the immediate trial, i.e. without a preliminary hearing being held, of the defendants subject to pre-trial custody, including the employee of A2A Ambiente, against whom the measure of pre-trial custody in prison was replaced by house arrest and, subsequently, with the obligation to stay in the municipality of residence, setting the first hearing for this purpose on November 4, 2019. Said proceedings are currently at the stage of the debates.

Court of Taranto no. 5400/19 R.G. Administrative Responsibility

On May 7, 2020, the Guardia di Finanza notified Linea Ambiente S.r.l. of a preventive seizure order issued by the GIP of Taranto on March 12, 2020 in the context of Proceedings no. 2785/18 R.G.N.R. and 5400/19 R.G. Admin. Resp. and deed of execution of preventive seizure pursuant to art. 53 of Legislative Decree 231/01, also valid as guarantee information pursuant to art. 369 of the Italian Criminal Code.

For the first time, Linea Ambiente was informed of the existence of Criminal Proceedings no. 5400/19 R.G. Admin. Resp. of Entities for bribery offences pursuant to article 25, paragraph 2, of Legislative Decree 231/01.

The preventive seizure, on May 7, 2020, was arranged up to the amount of 26,273,298 euro (equal to the presumed profit of the offence). On May 13, 2020 was the notification of appointment of a judicial administrator of the assets seized, including company shares and receivables.

On May 21, 2020, Linea Ambiente proposed a request for review of the seizure order, which was discussed in the Council Chamber on June 9, 2020, and rejected. The cautionary requests have been confirmed.

On June 11, 2020, a decree releasing the Linea Ambiente portions was notified. On September 10, 2020, the company was notified of the conclusion of the preliminary investigations pursuant to article 415-bis of the Code of Criminal Procedure. The notification was repeated, with partial changes, on January 21, 2021. On January 21, 2021, the Taranto Public Prosecutor's Office notified the defense lawyer of Linea Ambiente of an order to release and return 95.004% of the shares in Lomellina Energia held by Linea Ambiente and already placed under preventive seizure. This was done on the basis of a new estimate of the value of the shares made by the judicial administrator and on the fact that after the seizures made by the Guardia di Finanza there remained sums equal to the value of the shares to be seized.

At present, the company believes that the risk of confiscation is possible and has not made a provision for the amount of the seizure in view of the multiple concomitant factors, namely: i) the as yet preliminary phase of Proceedings no. 5400/19 R.G. Admin. Liability; ii) the exorbitant amount determined by the preventive seizure decree as profit deriving from the hypothetical predicate crime in respect of what is presently considered possible for a future effective confiscation order; iii) the fact that the time, considered to be in the fairly distant future, when such seizure may be ordered, cannot yet be determined, given the need of the definitive nature of any conviction judgement.

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Linea Ambiente vs. Provincia di Taranto – Grottaglie Landfill

In January 2021, the Province of Taranto sent a warning notice for the removal of the waste dumped during the period of validity of DD 45/18, which also constitutes a response to the requests that the company had made in previous years regarding the procedures for fulfilling the obligations resulting from the Sentence of the Council of State no. 5985/2019, which had annulled the substantial variation no. 45/2018. The Province, according to as stated in the meagre communication, which does not give evidence of the provincial inquiry, does not open the required authorization procedure and indicates to the company: (i) to remove the waste delivered in excess of the authorized quantities, (ii) to restore the landfill profiles in accordance with authorization 426/08 and (iii) to activate the closure activities.

On February 9, Linea Ambiente met with the Province, expressly reserving the right to challenge the warning, in order to outline a technical path necessary to take appropriate action; in particular, the company illustrated a preliminary investigation path from which all possible solutions could emerge, including a new request for a substantial variant of the current authorization in line with Council of State Sentence 5986/2019.

The uncertainty of the technical solutions available and the unpredictability of the competent authorities, which have not carried out any technical investigation, make it impossible to predict the duration of the authorization process and the type of measure that will be issued to allow the company to resolve the current impasse.

In view of the flaws in the deed, the company appealed to the Apulia Regional Administrative Court to have the warning cancelled.

The Group has set aside an adequate provision to cover any risk.

Lecce Public Prosecutor's Office - Criminal Proceeding no. 6369/2019 R.G.N.R.

On February 26, 2020, at the Rovato headquarters of Linea Ambiente S.r.l., the Brescia Finance Police executed the "Search and Seizure Warrant" issued on February 5, 2020 by the Lecce Public Prosecutor's Office (Public Prosecutor Mignone) in relation to criminal proceedings no. 6369/2019 R.G.N.R..

The Finance Police then acquired a copy of the company's Organisational Model and the deeds and documents relating to the information flows destined for the Linea Ambiente S.r.l. Supervisory Body from November 2014 to January 2019.

The criminal proceedings have been filed against the company Linea Ambiente S.r.l. and the legal representative pro tempore for the offences referred to in articles 452 quaterdecies of the Italian Criminal Code (activities organised for the illicit waste trafficking) and 256 and paragraphs 1 and 3 of Legislative Decree 152/2006 (respectively waste collection, transport and disposal activities in the absence of the prescribed authorization/registration and the construction and management of unauthorized landfills) from which the company's administrative liability derives pursuant to articles 24 and 25 undecies of Legislative Decree 231/2001 and this - the said measure states - "in order to have, with several operations and through the setting up of continuous and organized means and activities, managed and illegally disposed of large quantities of urban waste, creating an illegal landfill, in order to obtain an unfair profit". These alleged offences were supposedly committed in "Rome and Grottaglie from November 1, 2014 to January 28, 2019 with permanence".

Together with the "Search and Seizure Warrant", the Finance Police notified the company "Guarantee and on the right of defence information", from which it emerges that the company AMA S.p.A. of Rome, "owner of the TMB Rocca Cencia and Salario plants in Rome", was also entered in the same proceedings.

The company has been informed that individuals who are legal representatives or directors of Linea Ambiente S.r.l. and AMA S.p.A. during the interested period have received requests to extend the preliminary investigations in the same proceedings.

Amsa S.p.A.

Milan Public Prosecutor's Office - Criminal Proceeding no. 33490/16 R.G.N.R.

On May 7, 2019, the Carabinieri investigative unit of Monza showed up at the Amsa S.p.A. headquarters to notify an order for the exhibition of documents issued by the Milan Public Prosecutor's Office, relating to the documentation concerning three tenders launched by Amsa S.p.A. in 2017-2018, as well as the supplies made to it by a specific supplier. In relation to these proceedings, the Company's Chief Operating Officer and other employees were investigated, as well as three members of a tender judging committee issued by Amsa S.p.A..

No dispute has been raised against Amsa S.p.A. on the basis of the regulations on the administrative liability of legal persons, as Amsa S.p.A. considers itself to be an "injured party" and, in fact, has filed a complaint with the Public Prosecutor's Office through a trusted lawyer.

On December 23, 2019, lawyer of Amsa - as the injured party - was served notice for the setting of the preliminary hearing on February 17, 2020. As a result of this hearing, the Judge for Preliminary Investigation adjourned the hearing to May 25, 2020, setting a provisional schedule for its continuation. The measure in question does not cover the members of the tender committee for which a request for filing is expected. Filed as civil parties were Amsa S.p.A. and A2A Calore & Servizi S.r.l., as it was found to be an injured party in the same proceedings in relation to agreements made to its detriment by some companies competing in the district heating installation tenders, which tended to distort free competition.

The trial was postponed to a hearing on November 12, 2020 and then to March 19, 2021.

On January 18, 2021, the lawyer of Amsa S.p.A. was served notice of the setting of the preliminary hearing relating to the second line of investigation, registered under number 34213/19 R.G.N.R. - 21296/19 R.G.I.P. connected to the first. The preliminary hearing of this second matter is set for March 19, 2021 for the joining of the proceedings.

Amsa also filed as civil party against some of the defendants and in respect of certain allegations in connection with this additional matter.

Unareti S.p.A.

2i Rete Gas S.r.l./Unareti S.p.A. - tender gas distribution service Atem Milano 1

In 2018, 2iRete Gas S.r.l. notified to the Milan Regional Administrative Court an appeal against the award of the gas distribution service ordered by the Municipality of Milan in favour of Unareti S.p.a., requesting the cautionary suspension of the award provision and formulating an investigative request, announcing the right to notify additional reasons as a result of the satisfaction of the request for access to the documents. After the delivery of the part of the offer documents not covered by omissis, 2i Rete Gas S.r.l. notified additional reasons and further detailed some of the reasons for the illegitimacy of the measure already stated in the initial appeal. The Council of State rejected the requests for investigation. The defects of the award could be classified under three categories of topics: reasons for excluding Unareti, reasons for re-establishing the commission and reasons for redefining the ranking. Within the terms, Unareti notified an incidental appeal in which 2i Rete Gas filed an argument with further critical aspects of the proceedings.

After the Council Chamber of November 22, 2018, in which, at the joint request of the parties, the Regional Administrative Court adjourned the hearing on the merits, subsequently to November 21, 2019, the Regional Administrative Court issued Sentence no. 2598 on December 5, 2019 in which it upheld three grounds of appeal by 2i Rete Gas and one ground for the cross-appeal filed by Unareti ordering the annulment of the award unless the Administration ordered it.

2i Rete Gas S.r.l. notified the sentence on January 17, 2020 and all parties notified the appeal to the Council of State; 2i Rete Gas S.r.l. and Unareti S.p.A. appealed the grounds absorbed and not examined at first instance. The Municipality and 2i Rete Gas S.r.l. also requested cautionary suspension of the sentence, which was then waived; therefore, following the Council Chamber set for April 2, all three appeals were discussed at the only hearing on the merits set for July 9, 2020.

On September 7, 2020, the Council of State filed Sentence no. 5370, which upheld the appeal by Unareti, thus confirming the legitimacy of the award of the tender to Unareti. The Council of State, reforming the first instance ruling, also found that the reliance on the requirements of 2iRG S.p.A. in favour of 2iRG complied with the law, with the result that the first instance ruling was erroneous insofar as it excluded 2iRG from the tender. The Council of State also examined and ruled on the rejection or inadmissibility of all the other grounds of appeal of 2iRG and Unareti at first instance.

On February 18, 2021, 2i Rete Gas S.r.l. filed an appeal with the Court of Cassation pursuant to article 111 of the Italian Constitution, article 362, paragraph 1 of the Italian Code of Criminal Procedure and Article 110 of the Italian Code of Civil Procedure to ask the Court of Cassation, which will have to decide in Joint Sections, to ascertain the lack of jurisdiction of the Council of State when it issued Sentence no. 5370 on September 7, 2020. At present, no request for suspension of the effectiveness of the sentence has been served, which should in any case be filed with the Council of State. Thus, Unareti and the Municipality of Milan, in its capacity as ATEM Milano 1, can proceed to sign the service contract. Within the terms, the Company will appear (by means of a counter-appeal) in order to be able to participate in the trial, which will reasonably take several years, also considering that the Court of Cassation may await the outcome of an appeal on the matter, pending before the Court of Justice.

Unareti S.p.A. is continuing to carry out its normal activities in extension.

ACSM-AGAM S.p.A.

Acsm Agam Ambiente S.r.l. vs Municipality of Varese regarding the reorganization of the municipal sanitation service

Acsm Agam Ambiente S.r.l. (beneficiary as a result of the extraordinary operations for the award of the municipal sanitation service in the municipality of Varese, which was granted to Aspem S.p.A. in 1999 and until December 31, 2030) file a complaint, supplemented by subsequent additional grounds, to the Milan Regional Administrative Court against the numerous municipal acts which established that the award had ceased December 31, 2018 and which ordered the call for tenders for the municipal sanitation service in the Municipality of Varese. The appeal was discussed on June 20, 2019 and the Regional Administrative Court filed Sentence no. 1633 on July 16, 2019 rejecting the fourth ground of appeal introduced by Acsm Agam Ambiente S.r.l. (early expiration on December 31, 2018) and affirming the lack of interest of the company in the grounds of appeal related to the tender documents, given that their possible acceptance would not lead to revival of the award of the service terminated on December 31, 2018.

The company notified an appeal to the Council of State to request the dismissal of the sentence because it is a mere acceptance of the Municipality's arguments, which the company does not agree on. The hearing on the merits, initially set for March 26, 2020, was then postponed to July 2, 2020, following which the Council of State filed the grounds on July 21 for Sentence 4469 rejecting the appeal. According to the Council of State, the Municipality of Varese applied Law 115/15, issued to prevent the risk of litigation before the Court of Luxembourg. Moreover, according to the Council of State, the company could not claim to remain operator for the years after 2018 because of the peculiarities of the procedure for the sale of Aspem shares that took place in 2009.

In the meantime, the service is managed by the company as a result of extension proceedings reiterated until May 1, 2021.

As a result of the execution of the extended service, Acsm Agam Ambiente S.r.l. filed an appeal with the Milan Regional Administrative Court against the resolution of the Municipality of Varese approving the 2020 PEF in order to restore the economic and financial operating balance.

Acsm Agam Ambiente S.r.l., without giving acquiescence, participated in the tender launched by the Municipality to assign the service and appealed to the Milan Regional Administrative Court against the final award decision that sees it third in the ranking. At the hearing on December 22, 2020, the Regional Administrative Court set a public hearing for April 21, 2021 and issued preliminary instructions to the municipality. The Municipality of Varese, by order of December 31, 2020, annulled the award decision. The successful tenderer challenged the revocation of the award of the contract by applying for precautionary measures, which were only partially granted and the effects of the revocation of the award were preserved.

On February 4, 2021, the Municipality of Varese awarded the contract to the second-ranking bidder, and both Acsm Agam Ambiente S.r.l. and the original tenderer, which was later revoked, challenged this decision, requesting the suspension of effectiveness as a precautionary measure, a decision for which the Council Chamber has been set for March 3, 2021. Acsm Agam Ambiente S.r.l. waived the suspension, highlighting the need for the transfer of management to take place following the filing of the sentence on the merits, after the hearing of April 21, 2021.

The Group has set aside an adequate provision to cover any risk.

ACSM-AGAM S.p.A. and Acsm Agam Ambiente S.r.l.: Lawsuit for damages against the Municipality of Varese regarding the municipal sanitation concession

In 2020, ACSM-AGAM S.p.A. and Acsm Agam Ambiente S.r.l. filed a lawsuit with the Special Business Court of Milan seeking a declaration of contractual and non-contractual non-fulfilment by the Municipality of Varese, with a consequent order for damages. The Municipality of Varese caused direct damage to the assets of the ACSM-AGAM Group by ordering the early termination of the service contract signed with Acsm Agam Ambiente. In fact, Acsm Agam Ambiente reduced the income flows related to the contract and incurred unforeseen and otherwise avoidable charges for the transitional continuation of the contract at more onerous conditions and ACSM-AGAM S.p.A. suffered a significant reduction in the value of the subsidiary's shareholding, despite and after the signing of the Framework Agreement that characterized the extraordinary transaction in 2018. After the hearing on March 9, 2021, the hearing for the examination of witnesses was set for June 24, 2021.

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AEB S.p.A.

Judgments on the integration transaction between A2A and AEB S.p.A.

With two initial appeals with cautionary request (R.G. 971/2020 submitted by CST Centro Servizi Termici, Decabo S.r.l. and Lombardy Regional Councillor Marco Fumagalli; R.G. 983/2020 submitted by Seregno Municipal Councillor Tiziano Mariani) filed with the Milan Regional Administrative Court, the Resolution of the Seregno Municipal Council, which approved the merger between A2A and AEB, was challenged.

Following the Chamber of Council of June 24, 2020, with Ordinances no. 868/2020 and no. 869/2020, the Regional Administrative Court upheld the cautionary requests submitted by the claimants and suspended the effectiveness of the Resolution of the Seregno Municipal Council, fixing the hearing on the merits for December 2, 2020. The Regional Administrative Court, despite the cautionary phase, did not appreciate the questions referred for a preliminary ruling and referred to the danger and made a summary assessment of the alleged flaws in the transaction represented by the claimants; as a result, it considered that the transaction violated the rules on public companies because there were conditions for the application of public procedures.

A third appeal was subsequently filed (R.G. 1095/2020 filed by Idrotech and Eco Term S.r.l.s.), for which the Chamber of Council of July 15, 2020 has been set for this appeal as well as the hearing on December 2, 2020.

A2A, the Municipality of Seregno and AEB have filed separate cautionary appeals before the Council of State to obtain the annulment and/or reform of the ordinances. The Council of State, at the outcome of the Council Chamber set for August 27, 2020, on August 28, 2020, upheld the appeals *"due to the clear lack of legitimacy and interest of the claimants at first instance and the consequent clear lack of the assumption of direct and immediate harm involving the same claimants from the contested deeds, in view of the nature of the corporate change and the inapplicability of the transaction subject to the appeal at first instance"*. The resolution of the Municipality of Seregno, therefore, also took effect for the purposes of the corporate deeds.

The resolution of the Municipality of Seregno, therefore, also took effect for the purposes of the corporate deeds that were in fact carried out. The company has evaluated the content of the Council of State's orders and the appeals and, also in light of the position of the appointed lawyers, has considered the prevalence of the principles of legal certainty and market confidence in consideration of the performance of corporate acts.

After the hearing on the merits on December 2, 2020, on February 15, 2021, the Milan Regional Administrative Court published the judgments upholding the three appeals filed respectively by (i) CST Centro Servizi Termici di Calzolari Maurizio, Depositi Carboni Bovisa DE.CA.BO. S.r.l. and Marco Fumagalli (Councillor Lombardy Region) Sentence no. 412/21, (ii) Tiziano Mariani (Councillor Municipality of Seregno) Sentence no. 413/21 and (iii) Idrotech di Corno Irwin Maria Sentence no. 414/21. The sentences do not have any effect on corporate acts that have taken place and are effective in the meantime.

To enforce Sentence 413, an appeal was also notified to the Milan Regional Administrative Court for compliance, for which a hearing has been set for April 28, 2021. On March 2, the Regional Administrative Court, at the claimant's request, issued a precautionary decree in which it denied single-court precautionary measures, but set a council chamber for March 24, 2021. AEB and the Municipality of Seregno have filed an appeal with the Council of State requesting a suspension of the effects of the sentence. On March 22, 2021, the Council of State denied the suspension because it found that the ruling did not jeopardize the stability of the corporate integration transaction and, given the peculiarity and delicacy of the matter, scheduled a merit hearing as early as July 1, 2021.

The two sentences 412 and 414 qualify the business combination as a transformation of AEB S.p.A. into a mixed company carried out in alleged violation of art. 17 Legislative Decree 175/16 and art. 3 Legislative Decree 50/16 and consider that the conditions do not exist for exemption from the procedures dictated by art. 10 of the same Legislative Decree no. 175/16. A2A, as well as AEB and the Municipality of Seregno, has notified appeal to the Council of State to request the annulment of the sentences and has joined the appeal in compliance.

* * *

The following information is provided in connection with the main litigation of a fiscal nature.

A2A gencogas S.p.A. (formerly Abruzzoenergia S.p.A.) - General IRES/IRAP/VAT audit for fiscal years 2014 and 2015

On January 19, 2016, the Finance Police - Chieti Unit commenced a general audit of A2A gencogas S.p.A. (formerly Abruzzoenergia S.p.A.) for fiscal years 2014 and 2015 for IRES, IREP and VAT purposes. This audit was completed on May 25, 2016. The company submitted comments to the formal notice of assessment by the inspectors. In December 2016, the Revenue Agency of Chieti issued notices of assessment for IRES, IRAP and VAT for the years 2011 and 2012 and, in August 2017, served notices of assessment for IRES, IRAP and VAT for the years 2013 and 2014. The company has proposed a timely appeal against all the deeds notified. The Provincial Tax Commission of Chieti and the Regional Tax Commission of Pescara issued unfavourable rulings for IRES and IRAP. The appeals against the VAT assessment notices for the years 2011-2014 were rejected by the Provincial Tax Commission of Chieti and upheld by the Regional Tax Commission of Pescara. On May 8, 2019, the Company filed an appeal with the Supreme Court for IRES 2011 and 2012. In February 2020, the Company filed an appeal with the Supreme Court for IRES 2013 and 2014 and IRAP 2011-2014 and a counter-appeal with the Supreme Court for VAT 2011 and 2012. On May 5, 2020, the Company filed a counter-appeal with the Supreme Court for 2013-2014 VAT. A risk provision of 2 million euro has been recognized.

A2A S.p.A. - Registration tax for transfer of business unit and sale of the investment Chi.na.co. S.r.l.

On April 4, 2016, the Provincial Directorate I of Milan - Regional Office of Milan 1 - notified the invitation to appear to provide clarifications on a business transfer in the company Chi.na.co. S.r.l. and the subsequent sale of the investment held in it under control for registration tax purposes. The invitation was followed by a contradictory with the Office and subsequent notification by the latter of the notice of liquidation to the acquiring counterparty, which filed an appeal on September 28, 2016. The Provincial Tax Commission of Milan rejected the appeal with sentence filed on July 07, 2017. On February 13, 2018, the acquiring company filed an appeal, which was rejected by the Milan Regional Administrative Court. On April 8, 2019, the Company filed an appeal with the Supreme Court. On February 21, 2020, the Office filed a counter-appeal and a cross-appeal with the Supreme Court. The risks provision recognized for 1.4 million euro was fully used for the payment of the amounts requested with the liquidation notice.

A2A Ambiente S.p.A. (formerly Aprica S.p.A.) - Technical audit of the Brescia waste-to-energy plant

On March 7, 2013, the Brescia Customs Agency commenced a technical audit of the Brescia waste-to-energy plant owned by Aprica S.p.A. (now owned by A2A Ambiente S.p.A.). The audit was completed on January 16, 2014 with the serving of a formal notice of assessment for the years 2008 to 2011. For 2008 and 2009, the Customs Authority served payment notices together with the respective penalties on May 7 and 21, 2014. The company appealed against these two demands in July 2014. For the year 2009, in December 10, 2014, the company signed a conciliation agreement with the Customs Agency of Brescia for the final closure of the dispute and the consequent termination of the proceedings. For 2008, the litigation of first instance ended favourably for the company. On September 24, 2015, the Office appealed. The company filed counter-claims on November 17, 2015. With sentence of June 6, 2016, the Regional Tax Commission partially upheld the company's reasons. The Office has appealed to the Supreme Court and the company has resisted with counter-claim and cross-appeal notified on February 20, 2017. The Supreme Court referred the case back to the Regional Tax Commission and the Company filed an appeal for reinstatement on June 8, 2020. On August 5, 2014, the Customs Authority served formal notices of assessment for 2012 and 2013. In March 2016, the company defined with the Customs Agency of Brescia the years from 2010 to 2013 with the payment of the amounts due on the basis of the criteria identified in the deed of reconciliation for the year 2009. As a result of the settlement agreements, the fund has been released for the excess and there is a residual risks provision of 0.3 million euro for the year 2008.

A2A S.p.A. (merging company of AMSA Holding S.p.A.) - VAT Tax assessments for tax years from 2001 to 2005

In early 2006, the Italian Finance Police – Lombardy Regional Unit, Milan – carried out a tax audit of AMSA Holding S.p.A. (now A2A S.p.A.) for VAT purposes for tax years 2001 to 2005.

The audit ended with the issue of a final report contesting the legitimacy of the ordinary VAT rate, in place of the special rate applied by suppliers for waste disposal and plant maintenance, as well as the subsequent deduction made after the invoices issued for these services were duly paid.

The report was followed by formal notices of assessment from the Tax Revenue Office (Milan 3 Office) for each year audited; appeals were then filed with the Provincial Tax Commission within the term provided by law.

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The appeals for 2001 and for 2004 and 2005 were discussed on January 25, 2010 and on February 17, 2010 respectively, with a favourable outcome for the company in all cases. The Tax Revenue Office appealed against the verdict of the first court. The Regional Tax Commission rejected this appeal for all three years, 2001, 2004 and 2005.

For 2001, the Tax Revenue Office filed an appeal with the Supreme Court against which AMSA Holding S.p.A. (now A2A S.p.A.), filed a cross-appeal on November 9, 2012. At the hearing on December 12, 2018, the Company requested that the case be suspended in order to assess the facilitated settlement of the dispute. On May 24, 2019, the company filed an application for a facilitated settlement of pending tax disputes and definitively settled its tax claim.

The outcomes of the 2002 and 2003 disputes were also favourable for the company but the Tax Revenue Office filed an appeal against both sentences. The appeal for 2002 was discussed on November 30, 2010, and by way of a sentence lodged on February 2, 2011 the Milan Regional Tax Commission overturned the sentence of the first court, upholding the Tax Revenue Office's appeal on almost all counts with the exception of the hazardous waste category. The Company filed an appeal with the Supreme Court for 2002. The hearing was held on December 12, 2018 and the appeal was upheld and the judgement was adjourned to the Regional Technical Committee (CTR). On December 23, 2019, the Company filed an appeal for reinstatement in CTR and an appeal for revocation with the Supreme Court. For 2003 the appeal made by the Tax Revenue Office was discussed on November 7, 2011 before the Regional Tax Commission which rejected it with a sentence filed on November 11, 2011. The Tax Revenue Office has not appealed to the Supreme Court for 2003, 2004 and 2005 and the sentence has become final, thereby closing the litigation.

No provisions for risks have been recognized.

A2A Ciclo Idrico S.p.A. IMU assessment notices of Municipality of Montichiari for the years 2013-2018

On December 4, 2019, the Municipality of Montichiari (BS) issued notices of assessment for IMU purposes for the years from 2013 to 2018 regarding the purification plant located in the territory of the same municipality. On January 29, 2020, the Company filed an appeal with the Provincial Tax Commission. A risk provision of 0.7 million euro has been recognized.

A2A Energia S.p.A. merging company of Linea Più S.p.A. - General IRES/IRAP/VAT audit for fiscal years 2013 and 2014

On September 17, 2019 the Lombardy Regional Department - Large Taxpayers Section - opened in respect of A2A Energia S.p.A. (merging company of Linea Più S.p.A.) a general audit for IRES, IRAP and VAT purposes for tax periods 2013 and 2014. This audit was completed on October 22, 2019. On December 24, 2019, the Lombardy Regional Department issued notices of assessment for IRES, ROBIN TAX, IRAP and VAT purposes for the tax periods verified. On July 24, 2020, the Company appealed against all the assessments to the Provincial Tax Commission. A risk provision of 10.3 million euro has been recognized.

A2A Ambiente S.p.A. - Tax audit on sulphur dioxide and nitrogen oxides SO₂ NO_x emissions for the 2014 and 2019 tax periods

On October 24, 2019, the Naples Customs Agency 2 - Excise Department for Audits and Controls - opened against A2A Ambiente S.p.A. an administrative technical audit of the Acerra waste-to-energy plant for the recovery of the tax on emissions of sulphur dioxide and nitrogen oxides for the years 2014-2019. The audit was completed on February 27, 2020. On April 24, 2020, the Company submitted its observations regarding the notice of assessment prepared by the inspectors. On December 11, 2020, the Naples Customs Agency served notice of payment and imposition of penalties for the years 2015-2019. The Company is assessing the action to be taken. A risk provision of 0.5 million euro has been recognized.

* * *

Consob Recommendation no. 61493 of July 18, 2013

In response to Consob Recommendation no. 61493 published in July 2013, the A2A Group has carried out detailed analyses which have led to the identification of the hydroelectric production sector as the area applicable to the Group.

The investments made in this sector in 2020 were of a marginal amount and due to ordinary maintenance.

Attachments to the notes
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4.1 1. Statement of changes in tangible assets

Tangible assets millions of euro	RESIDUAL VALUE AT 12 31 2019	FIRST CONSOLIDATION	CHANGES DURING THE YEAR	
			INVESTMENTS	CHANGES IN CATEGORY
Land	112	13	3	
Buildings	594	22	10	3
Plant and machinery	3,591	138	165	117
Industrial and commercial equipment	45	2	11	1
Other assets	127	4	17	6
Landfills	28			2
Construction in progress and advances	131	3	221	(133)
Leasehold improvements	101		24	5
Right-of-use assets	140	10		
Total tangible assets	4,869	192	451	1

Tangible assets millions of euro	RESIDUAL VALUE AT 12 31 2018	FIRST CONSOLIDATION	CHANGES DURING THE YEAR	
			INVESTMENTS	CHANGES IN CATEGORY
Land	116			2
Buildings	590	1	15	9
Plant and machinery	3,460	3	144	87
Industrial and commercial equipment	38		12	3
Other assets	120		24	12
Landfills	66			1
Construction in progress and advances	85		161	(114)
Leasehold improvements	91		24	
Right-of-use assets	54			
Total tangible assets	4,620	4	380	-

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CHANGES DURING THE YEAR							RESIDUAL VALUE AT 12 31 2020
RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
					(1)	2	127
2	(1)	(2)			(31)	(19)	597
87	(13)	(26)	24		(295)	59	3,788
		(2)	2		(9)	3	50
		(8)	7		(31)	(9)	122
1				(2)	(3)	(2)	26
6				(2)		92	226
(14)	13	(1)	1		(16)	12	113
(49)	39				(27)	(37)	113
33	38	(39)	34	(4)	(413)	101	5,162

CHANGES DURING THE YEAR							RESIDUAL VALUE AT 12 31 2019
RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
1				(6)	(1)	(4)	112
11		(7)	6	2	(33)	3	594
45	(2)	(31)	28	121	(264)	128	3,591
		(1)	1		(8)	7	45
1		(6)	5		(29)	7	127
5				(40)	(4)	(38)	28
				(1)		46	131
(1)					(13)	10	101
103	10				(27)	86	140
165	8	(45)	40	76	(379)	245	4,869

4.2 2. Statement of changes in intangible assets

Intangible assets millions of euro	RESIDUAL VALUE AT 12 31 2019	FIRST CONSOLIDATION	CHANGES DURING THE YEAR	
			INVESTMENTS	CHANGES IN CATEGORY
Industrial patent and intellectual property rights	31		14	14
Concessions, licences, trademarks and similar rights	1,616	131	195	36
Goodwill	374	61		
Assets in progress	62		70	(51)
Other intangible assets	296	56	8	
Total intangible assets	2,379	248	287	(1)

Intangible assets millions of euro	RESIDUAL VALUE AT 12 31 2018	FIRST CONSOLIDATION	CHANGES DURING THE YEAR	
			INVESTMENTS	CHANGES IN CATEGORY
Industrial patent and intellectual property rights	24		10	12
Concessions, licences, trademarks and similar rights	1,502		184	20
Goodwill	444	15		
Assets in progress	44		51	(33)
Other intangible assets	288	3	2	1
Total intangible assets	2,302	18	247	-

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CHANGES DURING THE YEAR							RESIDUAL VALUE AT 12 31 2020
RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
					(19)	9	40
(38)	41	(24)	18	(1)	(98)	129	1,876
(9)						(9)	426
(7)						12	74
(18)	4				(25)	(31)	321
(72)	45	(24)	18	(1)	(142)	110	2,737

CHANGES DURING THE YEAR							RESIDUAL VALUE AT 12 31 2019
RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
(1)					(14)	7	31
		(31)	27		(86)	114	1,616
				(85)		(85)	374
						18	62
25					(23)	5	296
24	-	(31)	27	(85)	(123)	59	2,379

4.3 3. List of companies included in the consolidated annual report

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
Scope of consolidation			
Unareti S.p.A.	Brescia	Euro	965,250
A2A Calore & Servizi S.r.l.	Brescia	Euro	150,000
A2A Smart City S.p.A.	Brescia	Euro	3,448
A2A Energia S.p.A.	Milan	Euro	3,000
A2A Ciclo Idrico S.p.A.	Brescia	Euro	70,000
A2A Ambiente S.p.A.	Brescia	Euro	220,000
A2A Montenegro d.o.o.	Podgorica (Montenegro)	Euro	100
A2A Energiefuture S.p.A.	Milan	Euro	50,000
A2A gencogas S.p.A.	Milan	Euro	450,000
A2Abroad S.p.A.	Milan	Euro	500
A2A Telecommunications S.r.l.	Milan	Euro	10
Retragas S.r.l.	Brescia	Euro	34,495
Camuna Energia S.r.l.	Cedegolo (BS)	Euro	900
A2A Alfa S.r.l. in liquidation	Milan	Euro	100
Plurigas S.p.A. in liquidation	Milan	Euro	800
Proaris S.r.l.	Milan	Euro	1,875
SEASM S.r.l.	Brescia	Euro	700
Azienda Servizi Valtrompia S.p.A.	Gardone Val Trompia (BS)	Euro	8,939
Yada Energia S.r.l.	Milan	Euro	2,400
LaboRAEE S.r.l.	Milan	Euro	90
Ecodeco Hellas S.A. in liquidation	Atene (Greece)	Euro	60
Ecolombardia 4 S.p.A.	Milan	Euro	13,515
Sicura S.r.l.	Milan	Euro	1,040
Sistema Ecodeco UK Ltd	Canvey Island Essex (UK)	GBP	250
A.S.R.A.B. S.p.A.	Cavaglià (BI)	Euro	2,582
Nicosiambiente S.r.l.	Milan	Euro	50
Bioase S.r.l.	Sondrio	Euro	677
Aprica S.p.A.	Brescia	Euro	10,000
Amsa S.p.A.	Milan	Euro	10,000
SED S.r.l.	Robassomero (TO)	Euro	1,250
Bergamo Servizi S.r.l.	Brescia	Euro	10
A2A Recycling S.r.l.	Novate Milanese (MI)	Euro	5,000
A2A Integrambiente S.r.l.	Brescia	Euro	10
Electrometal S.r.l	Castegnato (BS)	Euro	200
Areslab S.r.l.	Brescia	Euro	10

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% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 12 31 2020	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
93.63%	100.00%	A2A S.p.A. (87%) Linea Group Holding S.p.A. (13%)	Line-by-line consolidation
93.73%	100.00%	A2A S.p.A. (87.20%) Linea Group Holding S.p.A. (12.80%)	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Smart City S.p.A.	Line-by-line consolidation
91.60%	91.60%	A2A S.p.A. (87.27%) Unareti S.p.A. (4.33%)	Line-by-line consolidation
81.90%	89.00%	A2A S.p.A. (74.50%) Linea Green S.p.A. (14.50%)	Line-by-line consolidation
70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
60.00%	60.00%	A2A S.p.A.	Line-by-line consolidation
67.00%	67.00%	A2A S.p.A.	Line-by-line consolidation
74.80%	74.80%	A2A S.p.A. (74.55%) Unareti S.p.A. (0.25%)	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	Amsa S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
68.78%	68.78%	A2A Ambiente S.p.A.	Line-by-line consolidation
96.80%	96.80%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2Abroad S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
99.90%	99.90%	A2A Ambiente S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	Aprica S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A. (74%) Aprica S.p.A. (1%) Amsa S.p.A. (25%)	Line-by-line consolidation
90.00%	90.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
A2A Security S.c.p.a.	Milan	Euro	52
LumEnergia S.p.A.	Villa Carcina (BS)	Euro	300
A2A Energy Solutions S.r.l.	Milan	Euro	4,000
Suncity Energy S.r.l.	Milan	Euro	100
ES Energy S.r.l.	Jesi (AN)	Euro	10
A2A Rinnovabili S.p.A.	Milan	Euro	50
INTHE 2 S.r.l.	Milan	Euro	210
Fair Renew S.r.l.	Milan	Euro	10
renewA21 S.r.l.	Milan	Euro	20
renewA22 S.r.l.	Milan	Euro	220
renewA23 S.r.l.	Milan	Euro	20
renewA24 S.r.l.	Milan	Euro	20
renewA25 S.r.l.	Milan	Euro	20
renewA26 S.r.l.	Milan	Euro	20
renewA27 S.r.l.	Milan	Euro	20
renewA28 S.r.l.	Milan	Euro	20
Trovosix S.r.l.	Milan	Euro	20
Des Energia Tredici S.r.l.	Milan	Euro	10
CS Solar2 S.r.l.	Milan	Euro	15
I.Fotoguiglia S.r.l.	Milan	Euro	14
Free Energy S.r.l.	Milan	Euro	10
Flabrum S.r.l.	Milan	Euro	100
Solar italy V S.r.l.	Milan	Euro	10
Linea Group Holding S.p.A.	Cremona	Euro	189,494
Linea Gestioni S.r.l.	Crema (CR)	Euro	6,000
LD Reti S.r.l.	Lodi	Euro	32,976
Linea Green S.p.A.	Cremona	Euro	48,000
Linea Ambiente S.r.l.	Rovato (BS)	Euro	19,000
Fragea S.r.l. società agricola	Sesto ed Uniti (CR)	Euro	20,000
Lomellina Energia S.r.l.	Parona (PV)	Euro	358

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
Asm Energia S.p.A.	Vigevano (PV)	Euro	2,511
ACSM-AGAM S.p.A.	Monza	Euro	197,344
Lereti S.p.A.	Como	Euro	86,450
ComoCalor S.p.A.	Como	Euro	3,516
Serenissima Gas S.p.A.	Como	Euro	9,230
Reti Valtellina Valchiavenna S.r.l.	Sondrio	Euro	2,000
Acel Energie S.r.l.	Lecco	Euro	17,100
Acsm Agam Ambiente S.r.l.	Varese	Euro	4,500
Varese Risorse S.p.A.	Monza	Euro	6,000
AEVV Impianti S.r.l.	Monza	Euro	21,800
AEVV Farmacie S.r.l.	Sondrio	Euro	100
A2A IDROGEN2 S.r.l.	Milan	Euro	10
Ambiente Energia Brianza S.p.A.	Seregno (MB)	Euro	119,496
A2A Illuminazione Pubblica S.r.l.	Brescia	Euro	19,000
Gelsia S.r.l.	Seregno (MB)	Euro	20,345
RetiPiù S.r.l.	Seregno (MB)	Euro	110,000
Gelsia Ambiente S.r.l.	Desio (MB)	Euro	4,671
Shareholdings held for sale			
Consul System S.p.A.	Milan	Euro	2,000

(*) The percentage does not take into account the put option.

% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 12 31 2020	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
45.00%	45.00%	A2A Energia S.p.A.	Line-by-line consolidation
41.34%	41.34%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
51.00%	51.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
79.37%	78.44%	ACSM-AGAM S.p.A.	Line-by-line consolidation
100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
99.75%	99.75%	ACSM-AGAM S.p.A. 98.68% Serenissima Gas 1.07%	Line-by-line consolidation
100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
33.52%	33.52%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ambiente Energia Brianza S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ambiente Energia Brianza S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ambiente Energia Brianza S.p.A.	Line-by-line consolidation
100.00%	100.00%	Ambiente Energia Brianza S.p.A. (70%) A2A Integrambiente S.r.l. (30%)	Line-by-line consolidation
75.00%	75.00%	A2A Energy Solution S.r.l.	Line-by-line consolidation

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4.4 4. List of shareholdings
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Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
Shareholdings in companies carried at equity			
PremiumGas S.p.A. in liquidation	Bergamo	Euro	120
Ergosud S.p.A.	Rome	Euro	81,448
Ergon Energia S.r.l. in liquidation	Milan	Euro	600
Metamer S.r.l.	San Salvo (CH)	Euro	650
SET S.r.l.	Toscolano Maderno (BS)	Euro	104
Messina in Luce S.c.a.r.l.	Monza	Euro	20
Serio Energia S.r.l.	Concordia sulla Secchia (MO)	Euro	1,000
Visano Soc. Trattamento Reflui S.c.a.r.l.	Brescia	Euro	25
Sviluppo Turistico Lago d'Iseo S.p.A.	Iseo (BS)	Euro	1,616
COSMO Società Consortile a Responsabilità Limitata	Brescia	Euro	100
Crit S.c.a.r.l.	Cremona	Euro	310
Suncity Group S.r.l.	Pescara	Euro	14
G.Eco S.r.l.	Treviglio (BG)	Euro	500
Bergamo Pulita S.r.l.	Bergamo	Euro	10
Tecnoacque Cusio S.p.A.	Omegna (VB)	Euro	206
ASM Codogno S.r.l.	Codogno (LO)	Euro	1,898
758 AM S.r.l.	Milan	Euro	20
Como Energia S.c.a.r.l. in liquidation	Como	Euro	20
SO.E.RA Energy Calor in liquidation	Como	Euro	20
Prealpi Servizi S.r.l.	Varese	Euro	5,451
Total shareholdings			
Shareholdings held for sale			
Ge.S.I. S.r.l.	Brescia	Euro	1,000

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SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 12 31 2020 (THOUSANDS)	VALUATION METHOD
50.00%	A2A Alfa S.r.l. in liquidation	-	Equity
50.00%	A2A gencogas S.p.A.	-	Equity
50.00%	A2A S.p.A.	-	Equity
50.00%	A2A Energia S.p.A.	2,249	Equity
49.00%	A2A S.p.A.	831	Equity
70.00%	Varese Risorse S.p.A. (55%) A2A Illuminazione Pubblica S.r.l. (15%)	11	Equity
40.00%	A2A S.p.A.	649	Equity
40.00%	A2A S.p.A.	10	Equity
24.29%	A2A S.p.A.	748	Equity
52.00%	A2A Calore & Servizi S.r.l.	118	Equity
32.90%	A2A Smart City S.p.A.	104	Equity
26.00%	A2A Energy Solution S.r.l.	5,696	Equity
40.00%	Aprica S.p.A.	2,992	Equity
50.00%	A2A Ambiente S.p.A.	84	Equity
25.00%	A2A Ambiente S.p.A.	246	Equity
49.00%	Linea Gestioni S.r.l.	3,651	Equity
20.00%	A2A Rinnovabili S.p.A.	109	Equity
70.00%	ACSM-AGAM S.p.A.	11	Equity
50.00%	ACSM-AGAM S.p.A.	10	Equity
12.47%	ACSM-AGAM S.p.A.	-	Equity
		17,519	
47.00%	A2A S.p.A.	-	Equity



4.5 5. List of holdings in other companies

Company name	SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 12 31 2020 (THOUSANDS)
Immobiliare-Fiera di Brescia S.p.A.	0.90%	A2A S.p.A.	
AQM S.r.l.	7.80%	A2A S.p.A. (7.52%) LumEnergia S.p.A. (0.28%)	
AvioValtellina S.p.A.	0.18%	A2A S.p.A.	
Banca di Credito Cooperativo dell'Oglio e del Serio s.c.	n.s.	A2A S.p.A.	
Brescia Mobilità S.p.A.	0.25%	A2A S.p.A.	
Consorzio Italiano Compostatori	n.s.	A2A Ambiente S.p.A.	
L.E.A.P. S.c.a.r.l.	8.29%	A2A S.p.A.	
Consorzio Polieco	n.s.	A2A Ambiente S.p.A.	
Gugliesoni Ambiente S.c.a.r.l.	1.01%	A2A Ambiente S.p.A.	
Isfor 2000 S.c.p.a.	5.13%	A2A S.p.A. (4.94%) Linea Gestioni S.r.l. (0.19%)	
S.I.T. S.p.A.	0.26%	Aprica S.p.A.	
Stradivaria S.p.A.	n.s.	A2A S.p.A.	
Tirreno Ambiente S.p.A. in liquidation	3.00%	A2A Ambiente S.p.A.	
IBF Servizi S.p.A.	14.50%	A2A Smart City S.p.A.	
DI.T.N.E. S.c.a.r.l.	1.86%	A2A S.p.A.	
E.M.I.T. S.r.l. in liquidation	10.00%	A2A S.p.A.	
COMIECO	7.50%	A2A Recycling S.r.l. (2.89%) A2A Ambiente S.p.A. (4.61%)	
CONAPI S.c.a.r.l.	18.18%	A2A Recycling S.r.l.	
Blugas Infrastrutture S.r.l.	27.51%	Linea Group Holding S.p.A.	
Casalasca Servizi S.p.A.	13.88%	Linea Gestioni S.r.l.	
Sinergie Italiane S.r.l. in liquidation	22.10%	Linea Group Holding S.p.A. (14.92%) Ambiente Energia Brianza S.p.A. (7.18%)	
Cassa Padana S.c.a.r.l.	n.s.	A2A Smart City S.p.A.	
Confidi Toscana S.c.a.r.l.	n.s.	Linea Ambiente S.r.l.	
Credito Valtellinese	n.s.	Linea Ambiente S.r.l.	
Futura S.r.l.	1.00%	A2A Calore & Servizi S.r.l.	
MORINA S.r.l.	5.00%	Azienda Servizi Valtrompia S.p.A.	
Comodepur S.c.p.a.	9.81%	ACSM-AGAM S.p.A.	
T.C.V.V. S.p.A.	0.25%	ACSM-AGAM S.p.A.	
Società Cooperativa Polo dell'Innovazione della Valtellina in liquidation	n.s.	ACSM-AGAM S.p.A. A2A S.p.A.	
Total investments in other companies			7,485

Note: A2A S.p.A. took part in the setting up of Società Cooperativa Polo dell'Innovazione della Valtellina, subscribing 5 shares having a nominal value of 50 euro.

4
Attachments to
the notes to the
Consolidated
annual report

1. Statement
of changes in
tangible assets

2. Statement
of changes in
intangible assets

3. List of
companies included
in the consolidated
annual report

4. List of
shareholdings in
companies carried
at equity

5. List of
holdings in other
companies

Certification
of the consolidated
financial statements
pursuant to article
154-bis, paragraph
5 of Legislative
Decree no.
58/98

4.6 Certification of the consolidated financial statements pursuant to article 154-bis, paragraph 5 of Legislative Decree no. 58/98

1. The undersigned, Renato Mazzoncini, as CEO of A2A S.p.A., and Andrea Crenna, as Financial Reporting Manager of A2A S.p.A. also considering the provisions of article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of February 24, 1998, hereby attest:

- the adequacy in relation to the characteristics of the company and
- the effective application

of administrative and accounting procedures for the preparation of financial statements in the year 2020.

2. It is also certified that:

2.1 the Consolidated Financial Statements:

- a) have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002;
- b) correspond to the information contained in the accounting ledgers and records;
- c) provide a true and fair representation of the equity, economic and financial situation of the issuer and the whole of the companies included in the scope of consolidation;

2.2 the Report on Operations includes reliable analysis on the performance, result of operations and the business of the issuer and of all entities included in the consolidated financial statements as well as description of principal risks and uncertainties to which they are exposed.

Milan, March 18, 2021

Renato Mazzoncini
(CEO)

Andrea Crenna
(Financial Reporting Manager)

5

Independent Auditors' Report



5 Independent Auditors' Report



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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
A2A S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of A2A Group (the A2A Group), which comprise the consolidated balance sheet as at December 31, 2020, and the consolidated income statement, the consolidated statement of comprehensive income, statement of changes in group equity and consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the A2A Group as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of A2A S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matters:

Key Audit Matter	Audit Response
<p>Estimate of revenues for the sale of electricity and gas</p> <p>Revenues from the sale of goods and services include the estimated revenues accrued for electricity and gas services delivered to the customers between the date of last meter reading and December 31, 2020, as well as billed revenues based on effective consumptions of the period.</p> <p>The processes and methodologies for assessing and determining the estimate of accrued revenues are based on complex assumptions that, by their nature, imply use of the management's judgment, whereby the estimate developed by the A2A Group for revenues from electricity and gas services delivered to each customer between the date of last meter reading and year end are based on complex calculation algorithms derived from different IT systems. Additionally, such estimate is developed based on historical consumptions and the profile of each customer, adjusted to account for potential changes in consumptions.</p> <p>Considering the judgment required and the complexity of the assumptions used in the estimate of revenues from the sale of electricity and gas, we identified this area as a key audit matter.</p> <p>The disclosure of revenues recognition principles for gas and electricity sales is included in the paragraph "Use of estimates" of the notes to the consolidated financial statements.</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none">• assessment of the processes and key controls implemented by the Company related to the estimate of revenues for gas and electricity sales, including those related to Information Technology (IT);• testing of the operating effectiveness of key controls;• assessment of the key assumptions used by the management;• assessment of calculation algorithms and data from ERP systems used in developing the estimate of revenues for gas and electricity sales, also with the support of EY IT specialists;• assessment of historical trends of revenues estimate, and analysis of the impacts on total revenues;• execution of test of details on a sample of data used by the management to determine recognized revenues;• look-back analysis of the prior year estimate against the data subsequently reported. <p>Lastly, we reviewed the adequacy of the disclosure included in the notes to the consolidated financial statements.</p>



Impairment of assets

The consolidated financial statements of A2A Group as at December 31, 2020 include tangible assets for Euro 5.162 million and intangible assets for Euro 2.737 million, of which Euro 426 million related to goodwill, allocated to the different Cash Generating Units (CGU).

The processes and methodologies for assessing and determining the recoverable amount of each CGU, in terms of value in use, are based on complex assumptions, that, by their nature, imply the use of the management's judgment, in particular with reference to the forecast of future cash flows relating to the period covered by the Group's strategic plan, the normalized cash flows or the net realized value of the assets assumed as a basis for the terminal value, as well as the long-term growth rates and discount rates applied to such cash flows forecasts. Such assumptions could be affected by future expectation on energy market conditions, by the expectation of possible effects determined by the pandemic Covid-19, by the authorization processes in progress and by regulatory and macroeconomic scenarios.

Considering the judgment involved and the complexity of the assumptions used in the estimate of the recoverable amount, we have considered that this area represents a key audit matter.

The disclosures related to the impairment of assets are included in the paragraph "Use of estimates", in the note n.1 "Tangible Assets" and in note n.2 "Intangible Assets" of the notes to the consolidated financial statements, that also shows the sensitivity analysis by estimating the effects on the test arising from hypothetical variations on key assumptions, and in the paragraph "Covid-19 virus health emergency and the effects of the pandemic on annual results and the value of the assets (IAS 36) of the Report on Operation.

Our audit procedures related to this key audit matters included, among others:

- assessment of the processes and key controls implemented by the Company related to the impairment of assets;
- assessment of the appropriateness of the determination of the CGU and the allocating of assets and liabilities to the carrying value of each CGU;
- assessment of the report produced by the management's third party specialists, as well as the assessment of their competence, capability and objectivity;
- assessment of cash flows forecasts and their consistency with energy market conditions, with authorization processes in progress and with regulatory and macroeconomic scenarios;
- assessment of the consistency between the future cash flows assumed in the Group A2A's strategic plan and the cash flows forecasts assumed for each CGU, appropriately adjusted by estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance;
- assessment of the accuracy of actual results against previous forecasts;
- assessment of the long-term growth rates and discount rates.

In performing our procedures, we leveraged the use of EY valuation specialists who performed an independent calculation and sensitivity analysis on key assumptions, in order to determine any changes that could materially impact the valuation of the recoverable amounts.

Lastly, we reviewed the adequacy of the disclosures included in the notes to the consolidated financial statements, and the consistency of the Report on Operations with the consolidated financial statements of A2A Group.



Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the A2A Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company A2A S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the A2A Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the A2A Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the A2A Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required



to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the A2A Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of A2A S.p.A., in the general meeting held on June 11, 2015, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2016 to December 31, 2024.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the A2A Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.



Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of A2A S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of A2A Group as at December 31, 2020, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of A2A Group as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of A2A Group as at December 31, 2020 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of A2A S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, April 1, 2021

EY S.p.A.
Signed by: Paolo Zocchi, Auditor

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