



# 2020 Report on Operation





# Report on Operations 2020

these Financial Statements are available at the website  
[www.a2a.eu](http://www.a2a.eu)

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This is a translation of the Italian original “Relazione sulla Gestione 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](http://www.a2a.eu).

# Letter to Shareholders and Stakeholders 2020

Shareholders, Stakeholders,

2020 has been a very difficult year for all of us: the spread of the COVID-19 pandemic has indelibly marked our lives, leading to a change, even a radical one, of our habits and priorities. In spite of the great efforts of doctors, nurses and researchers, our country, like the rest of the world, has suffered many losses.

In such a difficult scenario, our Group immediately distinguished itself for its attention to both employees and the customers and citizens to whom we offer our services, extending, among other actions, remote working to anyone who could carry out their duties remotely and offering a concrete economic response to those in difficulty.

This situation of great economic and social tension, although unpredictable, did not catch us unprepared: in fact, since 2018, we have had a “crisis plan”, i.e. an organizational system, with clear activities and procedures to deal effectively with complex situations. This plan allowed us to offer an extremely rapid response to external events: we set up Crisis Committees and drew up a Recovery Plan aimed at mitigating the economic and financial impacts of COVID-19 as much as possible. The actions identified were aimed both at containing personnel costs and other non-essential operating costs and at strengthening the Group's liquidity by stipulating additional loans and lines of credit. The level of security and the continuity of the services provided to our customers and, in general, to the public have never been questioned.

The Recovery Plan proved to be a very valuable and flexible tool that allowed us to achieve positive economic and financial results that were substantially in line with the previous year: EBITDA stood at 1,204 million euro (1,234 at December 31, 2019), thanks to a significant recovery in the fourth quarter (+10%), while Net profit reached 364 million euro (389 million in the previous year). Our ambitious investment plan has not slowed down, reaching at the end of the year the record level of 738 million euro, significantly higher (+18%) than the already high value of 2019 and thus contributing to the support of the national economy; this figure is even more exceptional if

we remember that 80% of these investments are consistent with the UN objectives of the 2030 Agenda (SDGs) and about 40% are inherent to the circular economy, confirming the commitment to promote sustainable growth.

At the same time, the Group continued its external growth, finalizing the agreement with the AEB Group, increasing its leadership in the biomass sector and acquiring its first wind plant.

The financial performance, as a result of the actions described, is solid: The consolidated net financial position at December 31, 2020 amounted to 3,472 million euro (3,154 million euro as at end 2019). Excluding changes in scope that took place in the current year, NFP came to 3,327 million euro, recording cash absorption of 173 million euro on December 31, 2019, after investments for 738 million euro and dividends for 241 million euro.

Despite the emergency situation, in 2020, A2A again managed to improve its ESG (Environmental Social Governance) performance, making a significant contribution both to the economic and social resilience of the area and to the improvement of environmental conditions. The Group generated and distributed to stakeholders gross global added value of 1,853 million euro. Strong growth (+40% vs 2019) in orders, amounting to 1.9 billion euro, mainly benefiting (97%) Italian companies. There were 1,077 hires in 2020, bringing the Group's total workforce to 12,978 (+6% vs 2019). The weighted accident rate also improved (down 17% compared with the previous year).

In terms of circular economy, the Group's ability to recover almost all of the urban waste collected was confirmed, while separate waste collection in the areas served grew by a further 2 percentage points, exceeding 71%. Secondary raw material production from plants increased, amounting to 367 thousand tonnes (+4% vs 2019). As part of the energy transition, there was an annual reduction in direct greenhouse gas emissions of approximately 1 million tonnes, with a 10% decrease in the CO<sub>2</sub> emission factor of the Group's electricity generation (approved by the Science Based Targets Initiative). One-third of the electricity produced is derived from renewable sources. A2A customers

also showed more interest in green solutions, travelling 11 million kilometres thanks to electric vehicle recharges from the e-moving network and purchasing 3.9 TWh of green energy (+ 72% vs 2019).

Also in relation to the pandemic crisis, A2A would like to note its closeness to the territory, significantly increasing (+80% vs 2019) its contributions to social, cultural and environmental initiatives, which reached 8.1 million euro. The Energy Bank (Banco dell'Energia) continued its valuable work aimed at providing concrete answers to the problem of energy poverty.

On the financial markets, in 2020, A2A raised 500 million euro through a 12-year bond issue, whose coupon (0.625%) was, at the time of placement, the lowest ever obtained by Italian corporate issuers for bonds with a maturity of more than 10 years.

Moreover, continuing on the path started in July 2019, with the first issue of a Green Bond, the Group strengthened its commitment to the development of sustainable finance issues by including in its EMTN Programme, updated in July 2020, three KPIs related to environmental sustainability.

The 2021-2030 Strategic Plan, approved by the A2A Board of Directors on January 19, 2021, is therefore based on solid final figures that enable

us to look to the future with confidence and proceed towards repositioning A2A from a multi-utility to a "Life Company". Closeness to people and knowledge of the local area, commitment to guaranteeing essential services, long-term sustainability, transparency and innovation are the founding values of the new A2A. They frame and support its industrial direction: the circular economy and energy transition are the pillars of the Plan for a new approach to business to which all areas of the Group contribute.



Chairman of the  
Board of Directors

**Marco Patuano**



General Manager

**Renato Mazzoncini**



# Corporate Boards

## Board of Directors

### CHAIRMAN

Marco Emilio Angelo Patuano

### DEPUTY CHAIRMAN

Giovanni Comboni

### CEO AND GENERAL MANAGER

Renato Mazzoncini

### DIRECTORS

Stefania Bariatti

Vincenzo Cariello

Federico Maurizio d'Andrea

Luigi De Paoli

Gaudiana Giusti

Fabio Lavini

Christine Perrotti

Secondina Giulia Ravera

Maria Grazia Speranza

## Board of Statutory Auditors

### CHAIRMAN

Giacinto Gaetano Sarubbi

### STANDING AUDITORS

Maurizio Leonardo Lombardi

Chiara Segala

### ALTERNATE AUDITORS

Antonio Passantino

Patrizia Tettamanzi

## Independent Auditors

EY S.p.A.





A stylized light pole with a single arm and a rounded light fixture, rendered in a bright cyan color. It is positioned in the upper left quadrant of the page.

# 1

## Key figures of the A2A Group

A stylized light pole with two arms and rounded light fixtures, rendered in a bright cyan color. It is positioned in the middle of the page.A stylized light pole with two arms and rounded light fixtures, rendered in a bright cyan color. It is positioned in the lower right quadrant of the page.



# 1.1 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.

1  
Key figures of  
the A2A Group

Business Units

Geographical  
areas of activity

Group structure

Financial  
highlights at  
December 31,  
2020

Shareholdings

A2A S.p.A. on  
the Stock Exchange

Alternative  
Performance  
Indicators  
(APM)

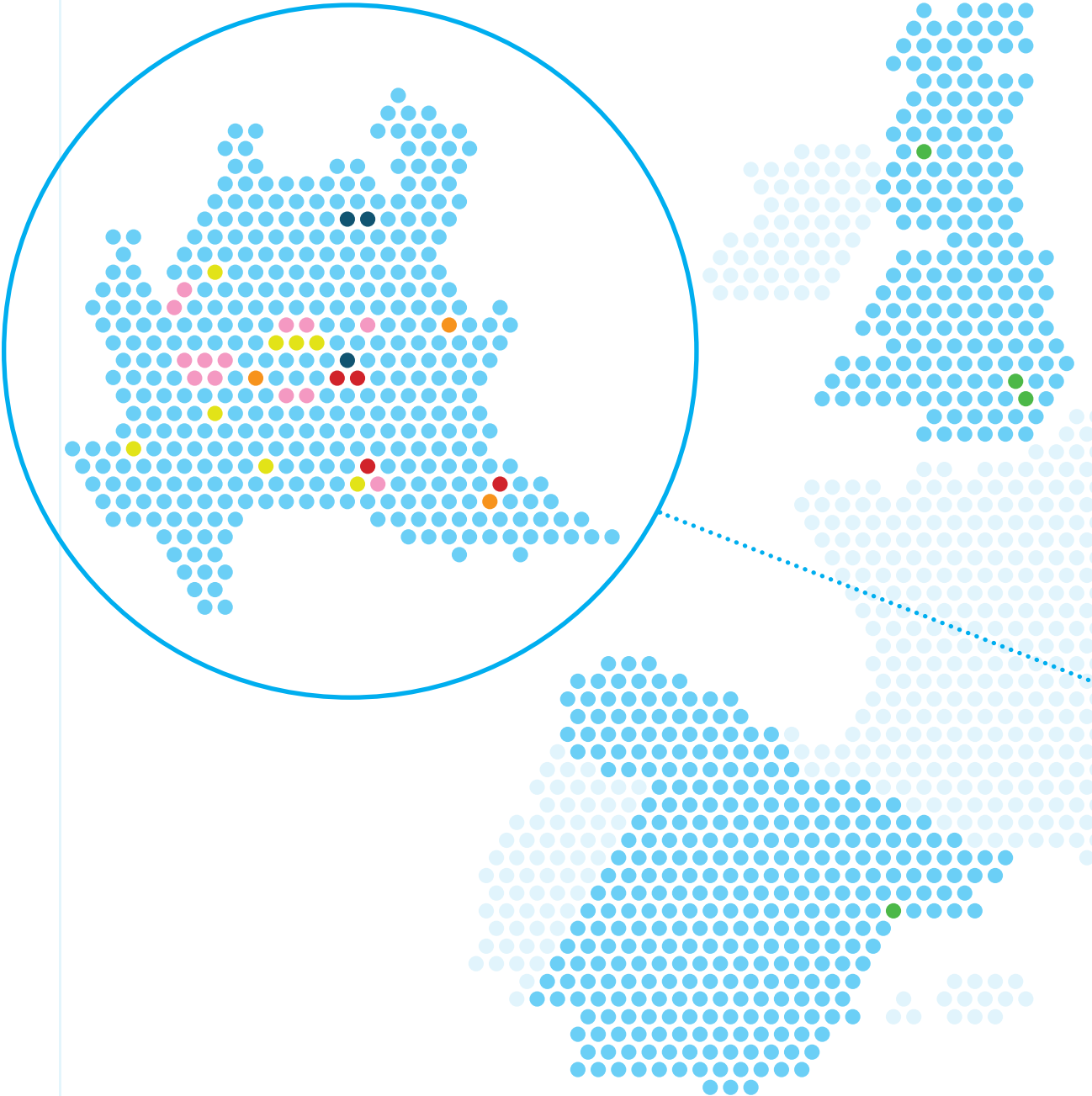


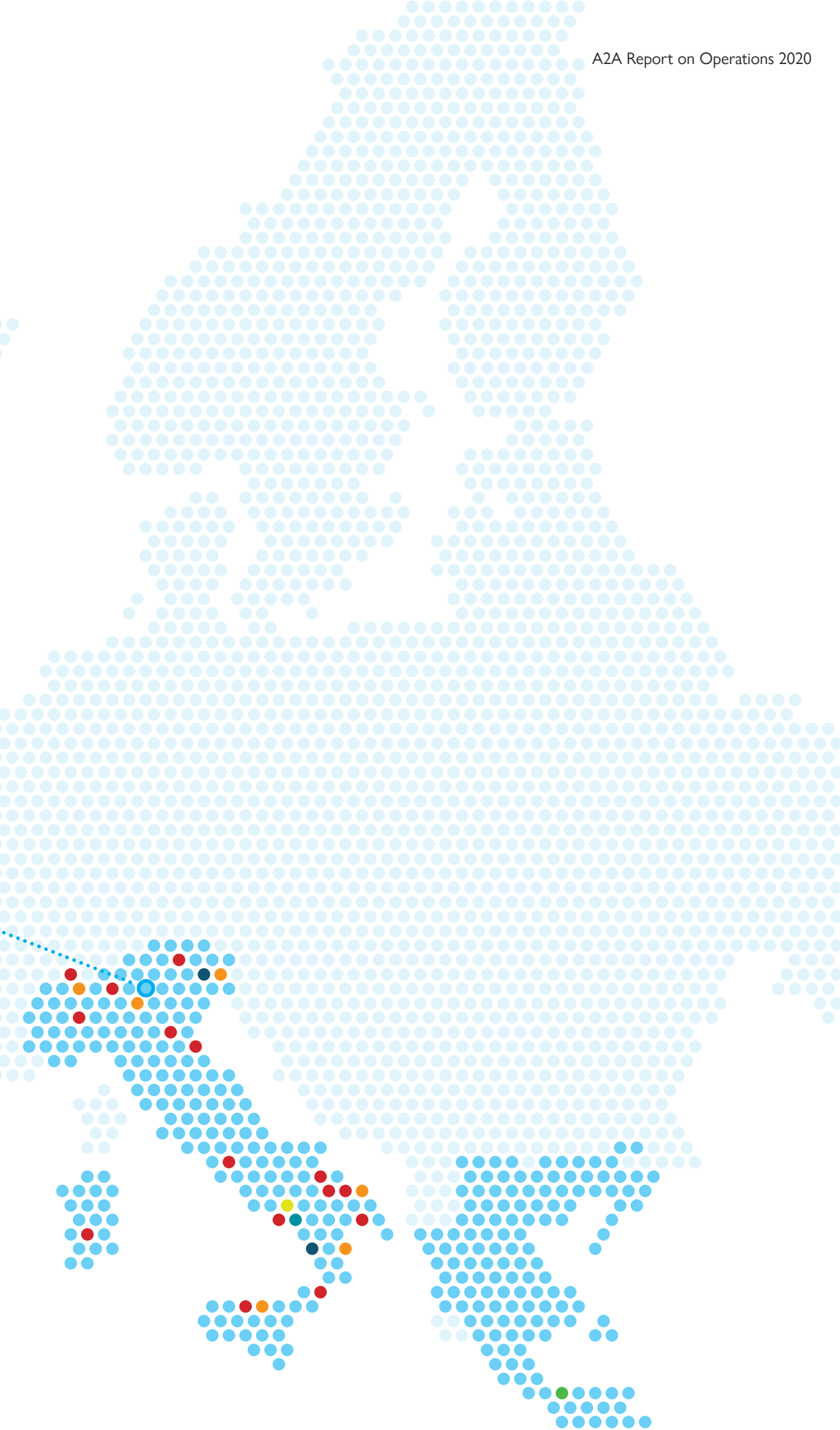


## 1.2 Geographical areas of activity

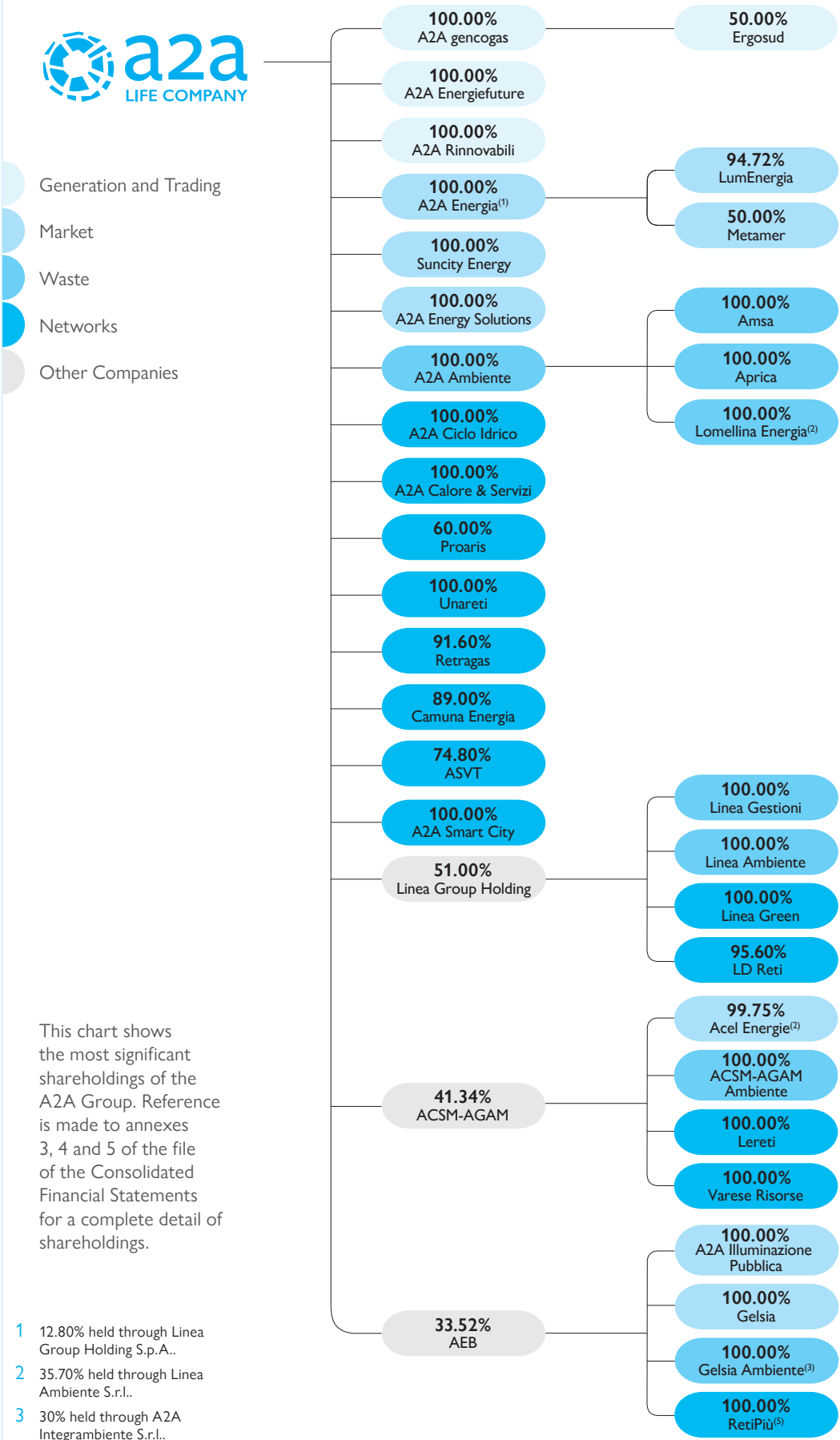
- Hydroelectric plants
- Thermoelectric plants
- Cogeneration plants
- Waste treatment plants
- Photovoltaic plants
- Wind plants
- Technological partnerships

Updated to December 31, 2020





1.3 Group structure



# 1.4 Financial highlights at December 31, 2020 (\*\*)



REVENUES  
**6,862**  
millions of euro



GROSS OPERATING INCOME  
**1,204**  
millions of euro



RESULT OF THE YEAR  
**364**  
millions of euro



DIVIDEND  
**0.08**  
EURO PER SHARE

## Income statement figures

millions of euro	01 01 2020 12 31 2020	01 01 2019 12 31 2019
Revenues	6,862	7,324
Operating expenses	(4,953)	(5,390)
Labour costs	(705)	(700)
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	(81)	(110)
Result before taxes	469	581
Income taxes	(99)	(189)
Net result from discontinued operations	(2)	1
Minorities	(4)	(4)
Group result of the year	364	389
Gross operating income/Revenues	17.5%	16.8%

(\*\*) The figures serve as performance indicators as required by CESRN/05/178/B.



Balance sheet figures

millions of euro	12 31 2020	12 31 2019
Net capital employed	7,588	6,805
Equity attributable to the Group and minorities	4,116	3,651
Consolidated net financial position	(3,472)	(3,154)
Consolidated net financial position/Equity attributable to the Group and minorities	0.84	0.86
Consolidated net financial position / EBITDA	2,9	2,6

Financial data

millions of euro	01 01 2020 12 31 2020	01 01 2019 12 31 2019
Net cash flows from operating activities	597	700
Net cash used in investing activities	(802)	(680)
Free cash flow (Cash Flow Statement figure)	(205)	20

Energy scenario

	12 31 2020	12 31 2019
Average of the PUN (Single Nationwide Price) Base load (Euro/MWh)	38.9	52.3
Average of the PUN (Single Nationwide Price) Peak load (Euro/MWh)	44.6	58.4
Average price of gas to the PSV (*) (Euro/MWh)	10.4	16.0
Average price of emission certificates EU ETS (**) (Euro/tonne)	24.8	24.9

(\*) Price of gas of reference for the Italian market  
(\*\*) EU Emissions Trading System

1

Key figures of the A2A Group

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Shareholdings

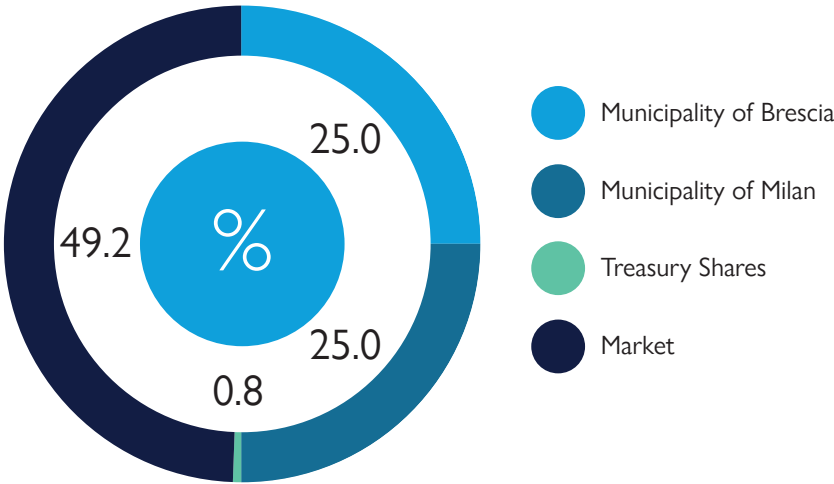
A2A S.p.A. on the Stock Exchange

Alternative Performance Indicators (APM)

Group’s key operational indicators

	12 31 2020	12 31 2019
<b>Generation and Trading</b>		
Thermoelectric production (GWh)	12,233	13,353
Hydroelectric production (GWh)	4,408	4,619
Electricity sold to wholesale customers (GWh)	14,116	11,474
Electricity sold on the Power Exchange (GWh)	15,306	14,409
<b>Market</b>		
Electricity sold to retail customers (GWh)	15,012	13,656
POD Electricity (#/1000)	1,270	1,174
of which POD Electricity Free Market	823	868
Gas sold to retail customers (Mcm)	2,365	2,454
PDR Gas (#/1000)	1,614	1,488
of which PDR Gas Free Market	868	744
<b>Waste</b>		
Waste collected (Kton)	1,660	1,708
Residents served (#/1000)	4,117	3,634
Waste disposed of (Kton)	3,251	3,340
Electricity sold by waste-to-energy (GWh)	1,954	1,780
<b>Networks</b>		
Electricity distributed (GWh)	10,673	11,735
Gas distributed (Mcm)	2,996	2,963
Water distributed (Mcm)	77	78
RAB Electricity (M€)	692	641
RAB Gas (M€)	1,509	1,426
Heat sales (GWht)	2,836	2,783
Cogeneration production (GWh)	298	316

1.5 Shareholdings (\*)



(\*) Source CONSOB for stakes higher than 3% (update at December 31, 2020).

Key figures of A2A S.p.A.

	12 31 2020	12 31 2019
Share Capital (euro)	1,629,110,744	1,629,110,744
Number of ordinary shares (par value 0.52 euro)	3,132,905,277	3,132,905,277
Number of treasury shares (par value 0.52 euro)	23,721,421	23,721,421

1

Key figures of the A2A Group

Business Units

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A2A S.p.A. on the Stock Exchange

Alternative Performance Indicators (APM)

## 1.6 A2A S.p.A. on the Stock Exchange

### A2A S.p.A. in figures (Italian Stock Exchange)

Market capitalisation at December 30, 2020 (millions of euro)	4,087
Share capital at December 30, 2020 (shares)	3,132,905,277

	2020
Average market cap (millions of euro)	4,143
Average daily volumes (shares)	12,072,133
Average price (€/share)	1.32
Maximum price (€/share)	1.90
Minimum price (€/share)	1.00

Source: Bloomberg

A2A stock is also traded on the following platforms: Aquis, BATS, BlockMatch, Chi-X, ITG Posit, Liquidnet, Tradegate, Tradeweb, Turquoise, UBS MTF.

On May 20, 2020 A2A distributed a dividend equal to 0.0775 euro per share.

### A2A forms part of the following indices

FTSE MIB
STOXX Europe 600
STOXX Europe 600 Utilities
EURO STOXX
EURO STOXX Utilities
MSCI Europe Small Cap
WisdomTree International Equity
S&P Global Mid Small Cap

### Ethical Indices

FTSE4Good
ECPI Indices
ECPI Low Carbon Italy Equity
Ethibel Sustainability Index Excellence Europe
EURO STOXX Sustainability Index
Euronext Vigeo Index: Eurozone 120
Standard Ethics Italian Index

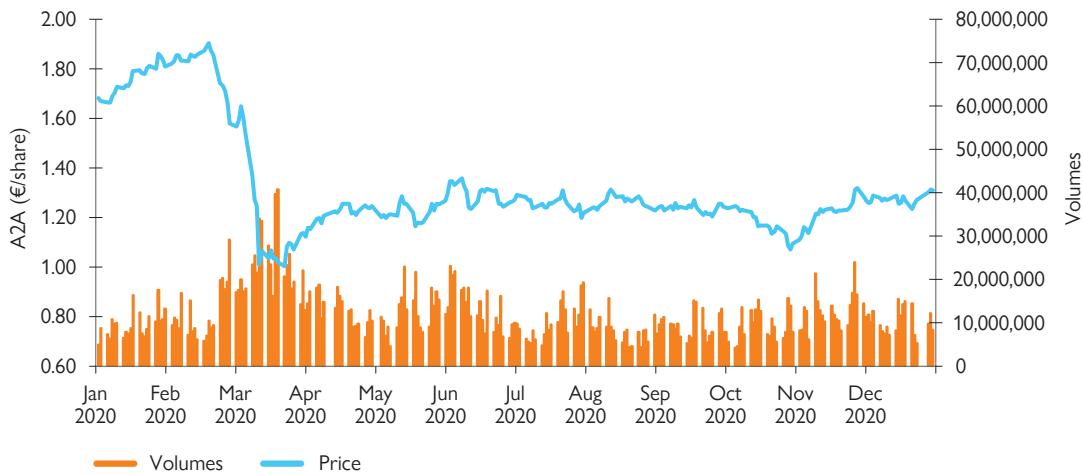
Source: Bloomberg and company information

In 2020 A2A obtained the following ESG ratings:

- A on the MSCI ESG questionnaire
- A- on the CDP climate change questionnaire
- B- rating in the CDP Water questionnaire
- A- in the Refinitiv ESG assessment

Moreover, A2A has been included in the Ethibel Excellence Investment Register, in the Ethibel Pioneer Investment Register and in the CDP Supplier Engagement Leaderboard.

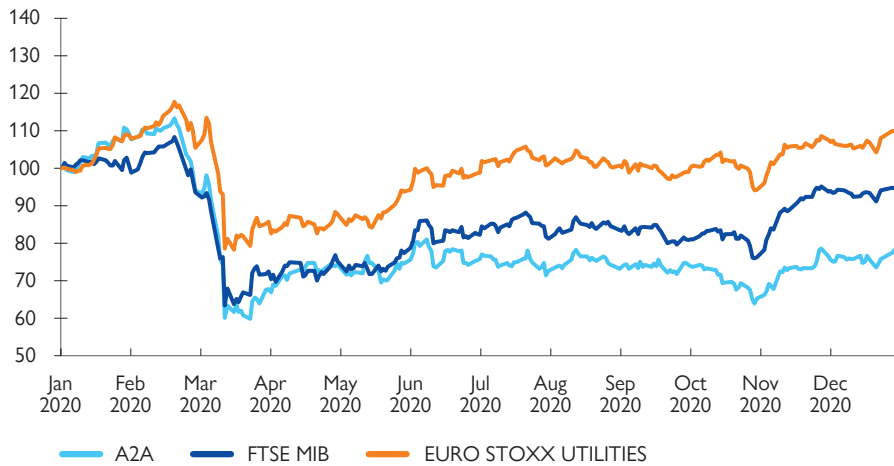
A2A: price and volumes



A2A vs FTSE MIB and EURO STOXX UTILITIES

(Price December 30, 2019 = 100)

Historical volatility in 2020  
A2A: 34.1%  
FTSE MIB: 30.7%



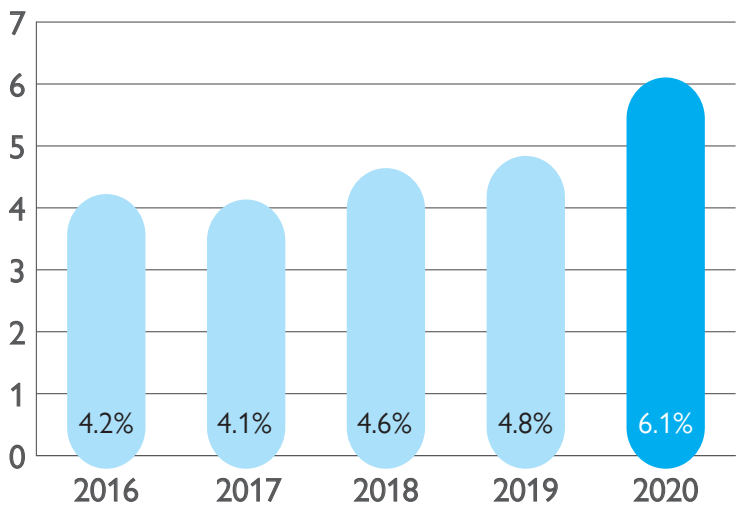
Source: Bloomberg

Rating

		Current
Standard & Poor's	M/L Term Rating	BBB
	Short Term Rating	A-2
	Outlook	Stable
Moody's	M/L Term Rating	Baa2
	Outlook	Stable

Source: Rating agencies

Dividend/average share price for the year (dividend yield)



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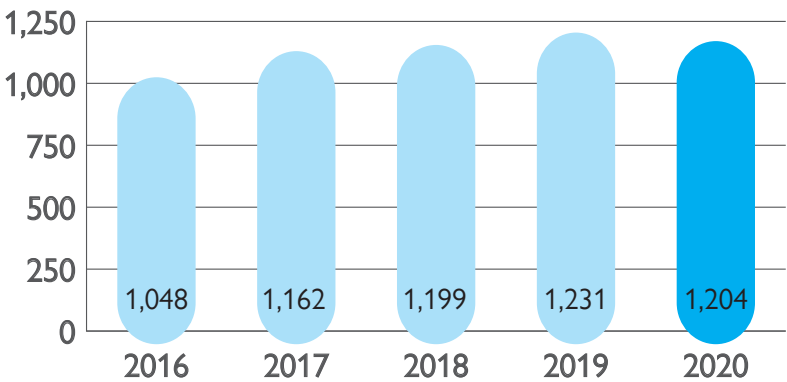
A2A S.p.A. on  
the Stock Exchange

Alternative  
Performance  
Indicators  
(APM)

## 1.7 Alternative Performance Indicators (APM)

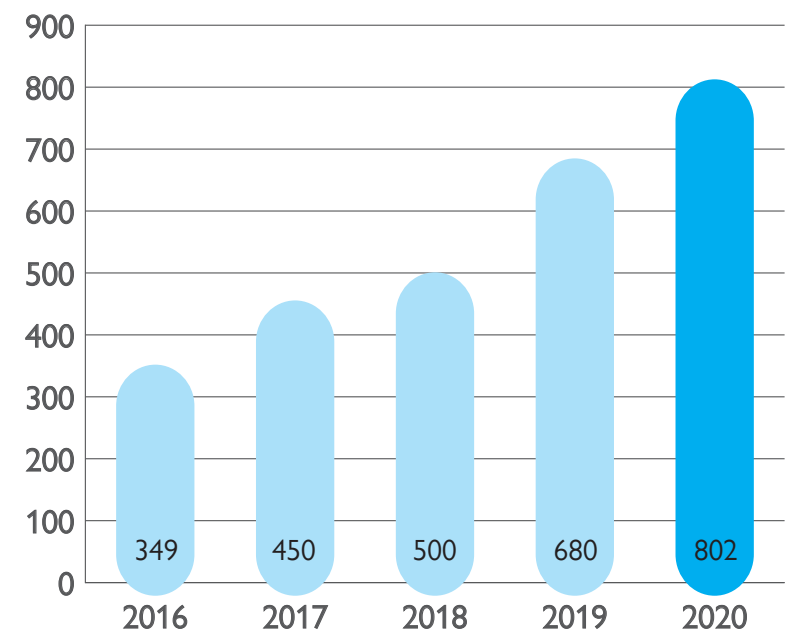
### Gross Operating Income

millions of euro



### Net Investments

millions of euro



1  
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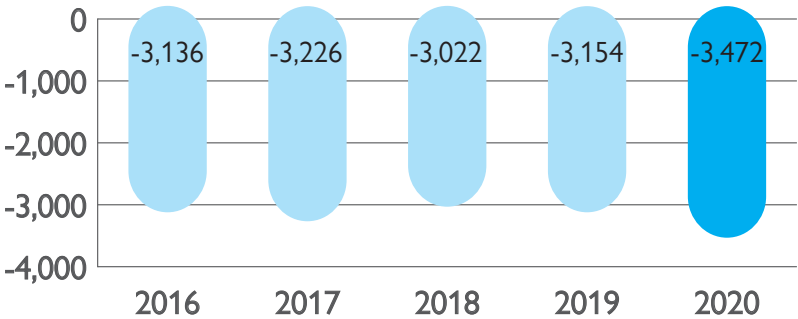
Shareholdings

A2A S.p.A. on  
the Stock Exchange

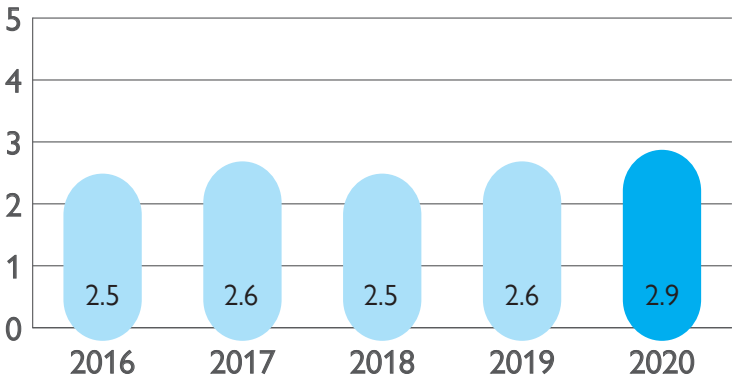
Alternative  
Performance  
Indicators  
(APM)

Net Financial Position

millions of euro

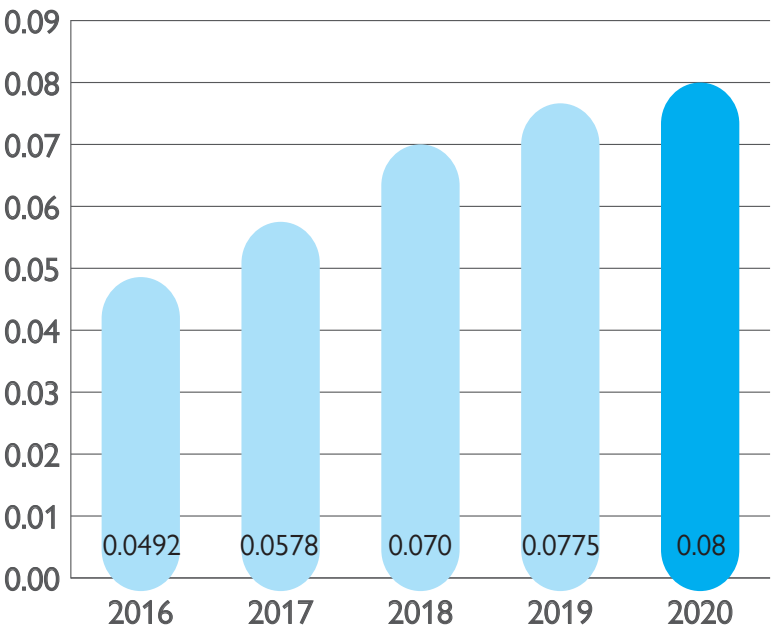


Net Financial Position/EBITDA



Dividend

euro per share





### Alternative Performance Measures (APM)

In this Report on Operations, a number of Alternative Performance Measures (APM) have been used that are different from the financial indicators expressly provided for by the international accounting standards IFRS-EU adopted by the Group.

These alternative measures are used by the A2A Group in order to more effectively submit information on the profitability of the business in which it operates as well as on the financial situation, useful to improve the overall capacity to assess financial and equity performance.

These indicators are shown in the “Summary of results and financial position of the A2A Group”. For the Income Statement and the Balance Sheet, the comparative values refer to December 31, 2019.

With reference to alternative indicators, on December 3, 2015, Consob issued Communication no. 92543/15, which transposes the Guidelines on the use and presentation of Alternative Performance Measures as part of regulated financial information, issued on October 3, 2015 by the European Securities and Markets Authority (ESMA). These Guidelines - which have updated the CESR Recommendation on Alternative Performance Measures (CESR/05 - 178b) - are intended to promote the usefulness and transparency of alternative indicators to improve their comparability, reliability and understanding.

In accordance with the Guidelines, the descriptions, content and bases of calculation used for the construction of the Alternative Performance Measures adopted by the Group are described below.

#### Gross operating margin

**Gross operating margin** is an alternative measure of operating performance, calculated as the sum of “Net operating income” plus “Depreciation, amortization, provisions and write-downs”.

This APM is used by the A2A Group as financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors) and represents a useful measure to assess the operating performance of the Group (both as a whole and in terms of individual Business Unit), also through a comparison between the operating results of the reporting period with those relating to previous periods or years. This measure also allows conducting analyses on operational trends and measure performance in terms of operational efficiency over time.

#### Result from non-recurring transactions

The **Result from non-recurring transactions** is an alternative performance measure designed to highlight the capital gains/losses arising from the valuation at fair value of non-current assets sold and the results from the sale of equity investments in unconsolidated subsidiaries and associated companies and other non-operating income/expenses.

This measure is positioned 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.

#### Net fixed assets

**Net fixed assets** is determined as the algebraic sum of:

- tangible assets;
- intangible assets
- capex accounted for using the equity method and other non-current financial assets;
- other non-current assets and liabilities;
- deferred tax assets and deferred tax liabilities;
- provisions for risks, charges and liabilities for landfills;
- employee benefits.

This APM is used by the A2A Group as financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors) and represents a useful measure of the net fixed assets of the Group as a whole, also through the comparison between the reporting period with those relating to previous periods or years.

This indicator also allows conducting analyses on operational trends and measure performance in terms of operational efficiency over time.

## Working capital

**Working capital** is determined as the algebraic sum of:

- inventories;
- trade receivables and other current assets;
- trade payables and other current liabilities
- current tax assets/tax liabilities.

This APM is used by the A2A Group as financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors); it represents a useful measure of the ability to generate cash flow from operations within a period of twelve months, also through the comparison between the reporting period with those relating to previous periods or years.

This indicator also allows conducting analyses on operational trends and measure performance in terms of operational efficiency over time.

## Invested capital/Net invested capital

**Invested capital/Net invested capital** is calculated as the sum of Net fixed capital, Working capital and Assets/Liabilities held for sale.

This APM is used by the A2A Group as the financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors); it represents a useful measure for the evaluation of total net assets, both current and fixed.

## Sources of funds

**Sources of funds** are calculated by adding "Shareholders' Equity" and "Total Net Financial Position".

This APM is used by the A2A Group as financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors) and represents the various sources by means of which the A2A Group is financed and the degree of autonomy that the A2A Group has in comparison with third party capital. This indicator also allows measuring the financial strength of the A2A Group.

## Net financial position/Net debt

**Net financial position/Net financial debt** is an indicator of the financial structure, calculated as the sum of net financial position beyond one year and net financial position within one year. Specifically, total net financial position beyond one year is obtained from the algebraic sum of:

- Total medium and long-term debt: the item includes the non-current portion of bonds, bank loans, financial leasing and other non-current liabilities;
- Total medium and long-term financial receivables: this item includes Non-current financial assets (including those with related parties) and Other non-current assets.

The net financial position within one year is derived from the algebraic sum of:

- Total short-term debt: this item includes the portion due within twelve months of bonds, bank loans, financial leasing, current financial liabilities to related parties and other current liabilities;
- Total short-term financial receivables: this item includes Other current financial assets (including to related parties) and Other current assets;
- Cash and cash equivalents and Cash and cash equivalents included in assets held for sale

This APM is used by the A2A Group as financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors) and is useful for the purposes of measuring the Group's financial debt, also through the comparison between the reporting period with those relating to previous periods or years.

The net financial position of the A2A Group is calculated in accordance with Consob communication no. DEM/6064293 of July 28, 2006 and in accordance with Recommendation ESMA/2013/319.

## Investments in tangible and intangible assets

**Investments in tangible and intangible assets** are extrapolated from the information contained in the Notes of the Balance Sheet.

This APM is used by the A2A Group as financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors) and is a useful measure of the resources used in the maintenance and development of the investments of the A2A Group (as a whole and in terms of individual Business Unit), also through the comparison between the reporting period with those relating to previous periods or years. This allows the A2A Group to conduct analyses on investment trends and measure performance in terms of operational efficiency over time.

Investors should not place undue reliance on these APM and should not consider all APM as: (i) an alternative to operating or net profit as calculated in accordance with IFRS; (ii) an assessment of the Group's ability to meet cash needs alternative to as deduced from the cash flow from operating, investing or financing activities (as determined in accordance with IFRS); or (iii) an alternative to any other performance measure provided by IFRS.

These Alternative Performance Measures derive from the historical financial information of the A2A Group and are not intended to provide indications relating to future financial performance, financial position or cash flow of the Group. Moreover, these APM were calculated uniformly for all periods.

COVID-19 virus  
health emergency and  
the Effects of the  
pandemic on annual  
results and the value  
of the assets (IAS 36)





## 2.1 COVID-19 virus health emergency and the Effects of the pandemic on annual results and the value of the assets (IAS 36)

Since 2018, the A2A Group has had a crisis plan that identifies the organizational system, activities and procedures necessary to deal with the events that led to the declaration of crisis, with the aim of protecting human resources inside and outside the A2A Group, containing material and immaterial damage and guaranteeing the correct management of communication flows externally and the continuity of the service offered, quickly restoring normal operating conditions and safeguarding the company's reputation and image. It should be noted that the A2A Group is managing the COVID-19 health emergency in full application of the provisions of the above procedure with the establishment and management of special crisis Committees. These committees, which meet to coordinate crisis management activities, make it possible to direct the company's actions in line with the provisions of the various Prime Ministerial Decrees issued and carry out preventive activities by defining mitigation plans to be activated if the emergency situation worsens.

The main monitoring and mitigation actions identified are described below:

- definition of the minimum functional services to be monitored by the plant managers and the list of managers necessary to manage the plants and related back-up, also with reference to contractors; this activity has been completed and can be activated in the event of personnel unavailability;
- activities to raise awareness with the ATS (Health Protection Agencies) so that the personnel of some Group companies are guaranteed recognition of their status as workers who perform an essential service for the community, making exceptions to the health protocols to be activated if necessary;
- actions involving personnel aimed at avoiding assemblages and ensuring the safety of people (preparation of the procedural documents according to the provisions of health protocols, adoption of PPE, sanitization of premises, temperature measurement, etc.); the segregation of the personnel of external companies was also guaranteed;
- preparation of a plan of equipment and PPE requirements for use in disposable mode;
- adoption of organisational and technological solutions to ensure that certain critical processes can be carried out remotely and methods for the execution of emergency intervention;
- provision of "filter villages" with container-rooms available for personnel to be quarantined;
- establishment of "points of care" at the Group's main sites, i.e., areas equipped for the administration of rapid swabs for the benefit of workers who have been in close contact with someone who tested positive.

### Effects of the COVID-19 pandemic on final results at December 31, 2020

The spread of the COVID-19 virus, as reported in the financial documents communicated during the year, generated negative impacts on the Group's economic and financial performance resulting from various phenomena:

- accentuation of the worsening of the energy scenario caused by the slowdown in the international economy and, in particular, the effects resulting from the contraction of gas prices. The "scenario" effect, net of the hedges implemented by the company, negatively affected approximately 50 million euro in comparison with 2019. Although it is not possible to quantify precisely how much of the impact resulting from a weak energy scenario is directly attributable to the health emergency, this component was, compared to the other negative effects, the most significant;
- slowdown in commercial activities relating to the acquisition of new customers; in waste collection and disposal activities resulting from the temporary closure of economic activities; lower consumption of electricity, gas, heat and water, especially of small and medium-sized industrial/commercial activities;
- the direct incurring of costs necessary to cope with the health emergency situation (generalised purchases of PPE, mass supplies for collective Smart Working, etc.).

The Group promptly reacted to the crisis right from the initial months of the outbreak, taking action to protect its profit margins and liquidity position. Actions have been taken to contain personnel costs (use of social shock absorbers; rescheduling of planned hirings; use of past holidays) and to contain other non-essential operating costs, ensuring in any case adequate safety standards and continuity of services. In a first phase, slowdowns in development investments were planned and later (as the expected situation improved) fully resumed.

To mitigate a possible liquidity risk, also deriving from possible delays in collections from customers, the Group has strengthened its position by stipulating additional loans and committed credit facilities during the first half, for a total of 550 million euro.

The actions described above and the natural diversification of the Group's activities, some of which, by their very nature, are not impacted by short-term economic factors (e.g. regulated or contracted activities), have made it possible to avoid being affected, on the whole, by the effects of the epidemic.

In comparison with 2019, the estimated net effects (i.e. net of the implemented recovery plan) of the COVID-19 impacts on 2020 were in fact approximately -10 million euro in EBITDA. Finally, this amount was offset by other development activities, including external growth operations, which allowed us to close the year with a constant EBITDA compared to 2019.

With regard to the impact on cash flows, in addition to as reported above on operating profitability and investments (which were not affected and actually grew despite the epidemic), the effects of COVID-19 were manifested above all on the collection times of receivables from customers for the supply of energy and gas. This impact, estimated at an average delay of 5 days in June, was then progressively reduced until it was neutralized by the end of the year. The overall negative effect on the non-recoverability of receivables was lower than expected.

At December 31, 2020, the Group has a comprehensive liquidity position of 1,802 million euro, comprising 1,012 million euro in cash and cash equivalents and 790 million euro in unused loans and committed credit facilities.

## Effects of the COVID-19 pandemic on expected 2021 results

Forecasts for 2021, as contained and indicated in the 2021-2030 Strategic Plan presented to the market on January 20, 2021, are based on the assumption that the year just commenced will not be significantly affected by negative effects induced by a continuation and/or worsening of the micro and macroeconomic scenario, both at international and national level, compared to the situation existing at the end of 2020. Consistently, no measures to support the economy and/or businesses were considered in the year.

With reference to the energy scenario, the main cause of the contraction in margins induced by COVID-19 in 2020, it should be noted that the assumptions for the energy scenario expected in 2021 were formulated with reference to the forward market curves of December 2020, which do not differ significantly from those still foreseeable today, as at March 8. The Group also hedged about 62% of its expected production, thus reducing the possible negative effects of a worsening of the scenario.

In any case, given the impossibility of accurately forecasting the methods, extent and duration of subsequent lockdowns extended during the year and the related impacts, management has developed, with reference to the forecasts for 2021, different scenarios with alternative risk assumptions and hypothesized for each of them, on the basis of the experience gained from the actions already carried out in 2020, the related mitigation actions to protect the economic and financial situation.

The Group monitors on a regular basis the evolution of the health care scenario and, at least once a month, its results and deviations from plan, and is ready to take the planned containment actions should significant negative variances occur during the year.

\* \* \*

## Effects of the COVID-19 pandemic on 2021 and subsequent years and recoverability of asset values (IAS 36)

For the purpose of the application of accounting standard IAS 36, in addition to the internal and external impairment indicators monitored generally, consistent with as already done during the year, management assessed, based on the information available, the effect of the spread of the COVID-19 pandemic on the recoverable amount of the CGUs impairment tested at December 31, 2020.

The Impairment test is based on the 2021-2030 Strategic Plan developed, as mentioned above, on the assumption that the emergency linked to COVID-19 will gradually recede and will not determine significant negative and lasting impacts on the international and national micro and macroeconomic scenario. The independent expert in charge of developing the impairment analysis analyzed, among other things, the relevant components and assumptions of the economic-financial projections prepared by the Company's management, made the appropriate adjustments and sensitivity in accordance with the provisions of IAS 36, made comparisons and checked the accuracy of the sources and assumptions used without finding any critical issues.

**2 COVID-19 virus health emergency and the Effects of the pandemic on annual results and the value of the assets (IAS 36)**

All of the Group's CGUs and related goodwill were tested for impairment and, as more fully described in the Notes to the Consolidated Financial Statements, no impairment losses were identified. 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.

\* \* \*

**Application of IFRS 16 “Leases”, in relation to the specific issues related to the consequences of COVID-19**

The amendment to IFRS 16 aims to neutralize the effect of any suspension/reduction in lease/rental fees following agreements between the parties arising from the COVID-19 pandemic: without this amendment, the lessee would have had to recalculate the value of the right of use and the resulting financial liability. The A2A Group did not need to reach any agreements to suspend/reduce rent/lease fees and is therefore not impacted by this integration.

**Risks associated with financial assets and liabilities, with particular attention to liquidity risk and the measurement of expected credit losses**

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, 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.

\* \* \*

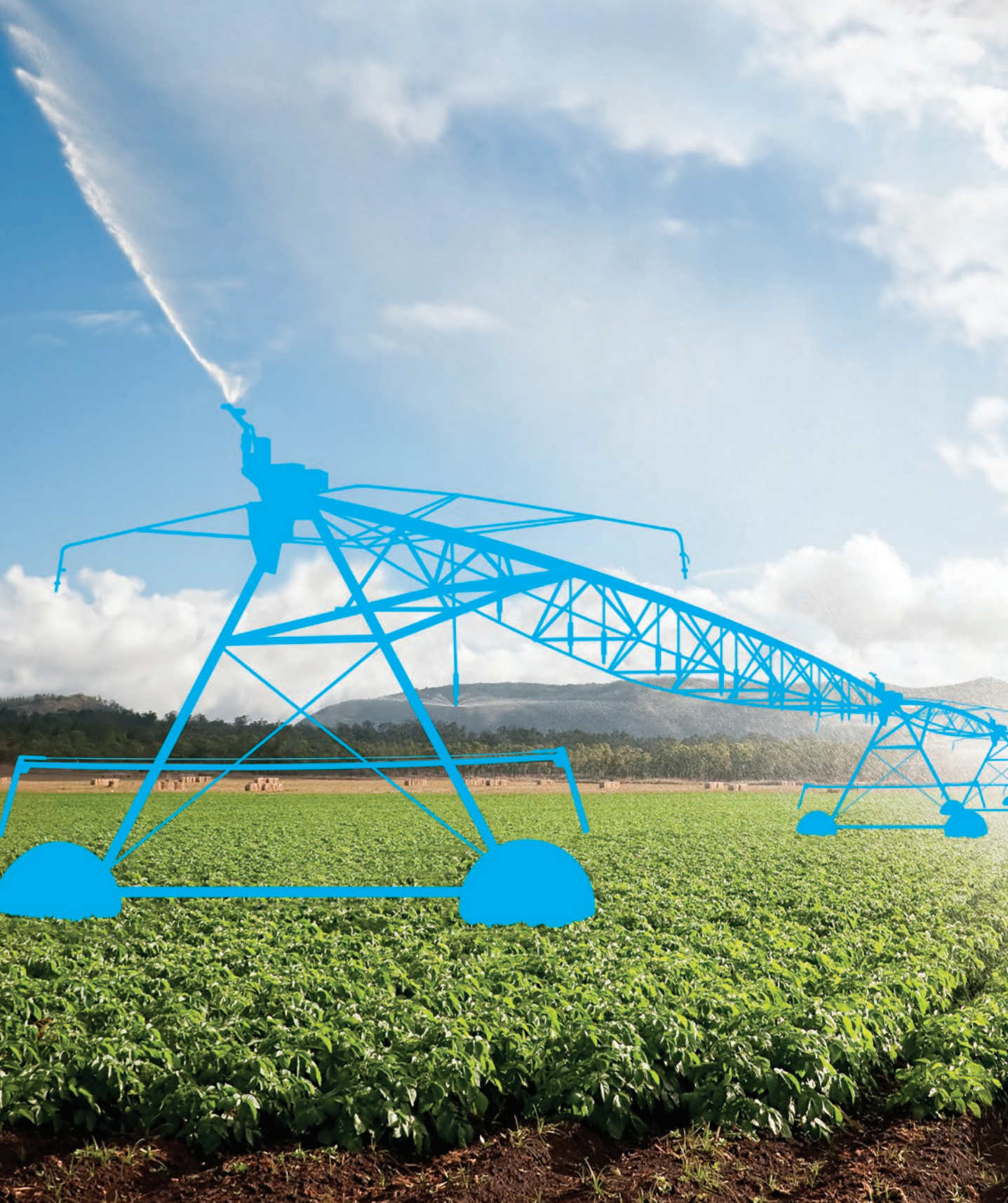
**Critical issues related to business continuity**

As described above, the strong diversification of the core businesses, a significant percentage of margins deriving from regulated activities or in any case relatively inelastic to the economic situation, the mitigation plans already identified and ready to be activated in the event of critical situations mean that there are no critical situations that could jeopardize business continuity.



# 3

## Scenario and Market





# 3.1 Macroeconomic scenario

## Overview

After the significant decline in the spring due to the pandemic and the related lock-downs, global economic activity, especially in advanced countries, showed a higher than expected recovery in the summer months and a slowdown in the fourth quarter of the year due to the new pandemic wave. According to the International Monetary Fund's estimate, the decline in the global economy in 2020 was -3.5% compared to the -4.4% indicated last October.

As concerns advanced economies, the estimate for US GDP improved, expected to fall by 3.4% (compared to -4.3% estimated in October) as a result of the recovery in consumption in the second half of the year. The Chinese economy, according to data published by the National Statistics Agency in Beijing, increased by 2.3% in 2020, making it the only country growing in this difficult global situation. China managed to contain the virus in the initial phase, marking a GDP decline of -6.8% in the first quarter of the year, and restarting the economy especially in the last quarter of 2020, when GDP increased by 6.5%. Among emerging countries, India recorded an 8% collapse, while in Brazil, despite the failed management of the pandemic, GDP fell to -4.5%.

According to the preliminary estimate of the International Monetary Fund (IMF), the GDP of the Eurozone is expected to record -7.2% in 2020. Although there are considerable differences, the consequences of COVID-19 have left a heavy mark on the main European economies with 2020 GDP estimated at -5.4% for Germany, -9.0% for France and -11.1% for Spain.

Estimates of Italian GDP for the entire year 2020, formulated by Istat, Bank of Italy and International Monetary Fund converge towards a decline of around 9%, after the timid +0.3% of 2019. For the fourth quarter of the year, the forecast is for a 3.5% decrease compared to the previous quarter, showing a marked decline in industry and agriculture against a substantial stagnation in the tertiary sector.

Inflation in the Eurozone, according to Eurostat, fell by 0.3% in December, in line with the previous month, mainly due to the negative contribution of energy goods (-6.9%). The average inflation for 2020 is equal to +0.3%.

In Italy, according to preliminary estimates by Istat, in December 2020, the national consumer price index (NIC) recorded a negative change of -0.2% for the eighth consecutive month. In the average of the year, consumer prices recorded the same decrease, i.e. -0.2%, compared to +0.6% in 2019, thus bringing Italy into deflation (third time since 1954). The negative annual change in the NIC index is mainly attributable to the trend in energy goods prices (-8.4% compared to 2019), net of which inflation has remained positive and slightly accelerating compared to the previous year.

Since the outbreak of the COVID-19 emergency, rapid and significant interventions by several central banks have been crucial to prevent an even greater decline in confidence and asset prices. In all major countries, monetary and fiscal authorities have put in place significant expansionary measures to support household and corporate income, credit to the economy and liquidity in the markets. Of particular importance was the activation and creation of swap lines between the major central banks to provide liquidity at international level.

At its meeting on January 21, 2021, the European Central Bank (ECB) left the reference rate at an all-time low of zero, reaffirming its commitment to maintain it at its current levels at least until inflation converges to values close to 2%. The ECB also confirmed that it will continue to make purchases under the Pandemic Emergency Purchase Programme (PEPP) amounting to 1,850 billion euro with a time horizon that remains extended until the end of March 2022 and, in any case, until it deems that the critical phase linked to COVID-19 is over. At the same time, the ECB confirmed that purchases under the Asset Purchase Programme (APP) will continue at a monthly pace of 20 billion euro, and will end shortly before the increase in key interest rates and in any case, as long as necessary to maintain favourable liquidity conditions and a broad degree of monetary accommodation. At its January meeting, the Federal Reserve (FED) decided to leave interest rates unchanged in the 0.00-0.25% range, and announced its intention to hold them steady until employment and inflation reach the expected targets. Also confirmed are the purchases of government bonds for 80 billion dollars monthly and asset-backed securities for 40 billion dollars at least until the end of 2023.

Since the beginning of the year, the EUR/USD exchange rate has fluctuated significantly, reaching highs of more than 1.18 and lows of around 1.06. The COVID-19 emergency, the ensuing interventions by central banks (FED and ECB in the front line) and the measures announced by the governments most affected by

the epidemic, were the main drivers of this fluctuating trend. The average EUR/USD exchange rate stood at 1.14 dollars in 2020, up 1.9% year-over-year, due to the depreciation of the dollar in the second half of the year, due primarily to the Federal Reserve accommodative response to the ongoing healthcare crisis.

## Outlook

The International Monetary Fund, in the January update of the World Economic Outlook, has slightly improved the scenario for the global economy. World GDP will grow in 2021 by 5.5% (+0.3% compared to the October estimate) and for 2022, it confirms a growth of 4.2%. The upward revisions are mainly attributable to the start of vaccinations against COVID-19, which creates hope of a pandemic reversal by the end of the year. Concerns remain about the prospects for recovery in the short term due to new waves of infection and new variants of the virus.

According to the International Monetary Fund, the United States and Japan are expected to return to late 2019 levels starting in the second half of 2021. GDP in the United States is expected to increase by 5.1% this year (+2.0% from the October estimate), thanks to the economic support measures and the new anti-COVID plan launched by the Biden administration. In the year 2022, the US economy will instead stand at +2.5% (from +2.9% forecast in October). Japan's GDP, after -5.1% in 2020, is expected to rise to +3.1% in 2021 (upward revision of +0.8%) and +2.4% in 2022. China will accelerate this year with a jump to +8.1%, and then expand by +5.6% in 2022. India is expected to grow 11.5% in the current year and then record +6.8% in 2022. Estimates have been improved for Brazil, which is expected to grow by +3.6% in 2021 and +2.6% in 2022. Russia is also expected to grow by +3.0% this year and +3.9% next.

As regards the Eurozone, GDP in 2021 will grow less than expected at +4.2% (1.0% less than forecast in October) and then settle at +3.6% in 2022. As regards the individual European countries, the German locomotive will grow by 3.5% this year (-0.7% compared to the October estimate), and +3.1% in 2022. French GDP is expected to increase by 5.5% in 2021 (against +6.0% in the previous estimate) to mark +4.1% in 2022, while Spain's GDP is expected to grow by 5.9% this year and +4.7% in 2022. The estimate has been improved for the GDP of Great Britain, expected to recover by +4.5% in 2021 to rise to +5.0% in 2022 (source: International Monetary Fund).

The International Monetary Fund has revised downwards the growth estimates for Italy in 2021: from +5.2% forecast in October to a more contained increase of +3.0%. The estimate for 2022 has improved with an expected GDP of +3.6% (+1.0% compared to the October estimate) thanks to a gradual recovery of international trade and the moderate expansion of domestic demand.

Inflation at international level will remain very low in the coming years: below the targets set by central banks in advanced economies (around 1.5%) and below the historical average in emerging markets (just over 4%).

According to the December forecasts formulated by ECB experts, inflation in the Eurozone is estimated at 1.0% in 2021, 1.1 % in 2022 and 1.4% in 2023.

Inflation in Italy is expected to remain below 1.0% both this year and next, affected by the large margins of unused capacity that is expected to curb wage increases and companies' pricing policies; it is forecast at 1.1% in 2023 (source: Bank of Italy).

As regards the level of interest rates, both the European Central Bank (ECB) and the Federal Reserve (FED) will be faced with important monetary policy choices and both will be faced with the risk of a fall in inflationary expectations. The Governing Council of the European Central Bank has declared itself ready, if necessary, to increase the extent and change the composition of its purchasing programmes and to do whatever is necessary, within the framework of its mandate, to support the Eurozone and ensure that inflation continues to approach the target level of around 2%. The decisions of the Board of Directors will support the liquidity and financing of the economy, contribute to credit for households and businesses in all sectors and in all countries to promote economic recovery. In the wake of the ECB, the Federal Reserve has also announced that it will continue to use all the powers at its disposal, vigorously and aggressively, until concrete results can be seen that it is on a solid path to recovery.

Macroeconomic projections made by the European Central Bank experts in January indicate a EUR/USD exchange rate equal to 1.23 in the three-year period 2021-23, expecting the dollar to maintain its depreciation trend due to the accommodating policy of the Federal Reserve, and the considerable economic stimuli launched by the Biden administration.

## 3.2 Energy market trends

### Electricity

As far as the national electricity market is concerned, in Italy in 2020 there was a net requirement of 302,751 GWh (source: Terna), down (-5.3%) compared to 2019; in seasonally adjusted terms and corrected for calendar and temperature, the change remains unaltered.

Net energy production in 2020 was 273,108 GWh, down 3.8% compared to the previous year. Specifically, renewable sources of production, both photovoltaic (+9.6%) and hydroelectric (+0.8%), albeit to a limited extent, are up; instead, the wind source is down (-7.4%). Thermoelectric production is down significantly, by -6.4% compared with the previous year to 175,376 GWh. National production, excluding pumping, accounted for 90.2% of the demand for electricity, while net imports satisfied the remainder. In 2020, 41.7% of net domestic production was generated from renewable energy sources.

The average value of the PUN Base Load in 2020 decreased by 25.7%, following a trend common to all major European electricity prices, reaching 38.9 €/MWh compared to 52.3 €/MWh in 2019. The bearish dynamics of the PUN, which began as early as the second half of 2019 in conjunction with the downward trend of gas prices at the PSV, is exacerbated in the contingent context of the health emergency that characterized 2020. The PUN was extremely low, with historic lows in May (quoted at 21.79 €/MWh), but began to rise again in December, reaching 54.0 €/MWh, with a price 24.7% higher than in December of the previous year. Downward trend also for average prices in high load time slots (-23.6% for the Peak Load PUN reaching 44.6 €/MWh). The average price in low load time slots (Off-Peak PUN) recorded a decrease of 27.1% to 35.7 €/MWh. For 2021, forward curves indicate Base Load PUN prices with average values close to 58.3 €/MWh.

### Natural Gas

In 2020, natural gas consumption in Italy will fall again compared to the previous year (-4.1%) to 70,727 Mcm: the lowest level in the last four years (source: Snam Rete Gas). The reduction in consumption appears to be concentrated in the first part of the year and in particular, in the months characterized by the national lock-down caused by the health emergency; there was an appreciable recovery in the last part of the year. These trends are consistent with those observed in the thermoelectric and industrial sectors, where consumption decreased to 24,459 Mcm (-5.3%) and 13,221 Mcm (-5.7%), respectively. Consumption in the residential sector declined less, falling to 30,930 Mcm (-2.3%), however still one of the lowest levels ever.

On the supply side, lower demand led to a decrease in imports to 65,941 Mcm (-6.7%), which represented 94.5% of domestic demand net of the trend in stocks. An analysis by entry point shows that imports by gas pipeline were down sharply in Tarvisio (with volumes recovering slightly in the second half of the year), Gries Pass (flows from Northern Europe) and Gela (flows from Libya); only imports from Algeria to Mazara bucked the trend. In addition, in November, the new gas pipeline (TAP) started operations with entry point in Melendugno. Domestic production was down 14.6% to 3,853 Mcm.

Regarding prices, the average price of gas to the TTF for 2020 amounted to 9.3 €/MWh, down 31.1% over 2019. The average price of gas to the PSV for 2020 amounted to 10.4 €/MWh, down 35.5% compared to 2019. Specifically, the downward trend appears to be concentrated in the first half of 2020, particularly in June, when prices reached all-time lows (5.9 €/MWh); prices then began to rise steadily, peaking at 16.3 €/MWh in December. For 2021, forward curves indicate gas prices to the PSV with average values close to 18.5 €/MWh.

The trend in the respective prices resulted in a PSV-TTF differential of 1.0 €/MWh for the reporting period, down compared to the differential of 2019 (2.5 €/MWh). The PSV gas market tends to confirm a structural spread with respect to the TTF also for the year 2021, albeit down: forward curves forecast a differential of around 0.7 €/MWh.

### Oil and coal

In 2020, oil prices continued to decline, with an average value of 43.2 \$/bbl, down 32.6% compared to the previous year (64.1 \$/bbl). The infra-annual trend shows, with the exception of January, prices constantly below 2019 levels and in progressive reduction until April, when Brent crude reached values among the lowest ever, settling at 26.8 \$/bbl; price recovery starting from May with the year closing with prices close to 50.2 \$/bbl. The slight appreciation of the euro versus the dollar (1.14 USD/EUR, +1.9%) accentuates

the downward trend of prices in €/bbl (-33.6%). For 2021, forward curves indicate prices with average values close to 54.4 \$/bbl.

According to the Energy Information Administration (EIA), global demand for oil averaged 92.2 million barrels a day in 2020, down 9.0 million barrels a day compared to 2019. For 2021, demand is expected to increase by 5.6 million barrels per day and an additional 3.3 million barrels per day in 2022.

With regard to world oil production, non-OPEC countries will see a decrease of about 2.3 million barrels per day in 2020, with Russia and the United States showing the largest decline. The EIA estimates that OPEC crude oil production averaged 25.6 million barrels per day in 2020 (lowest annual average since 2002) recording a decline of 3.7 million barrels per day compared to 2019. As for the outlook, the EIA expects non-OPEC oil production to increase by 1.2 million barrels per day in 2021 and 2.3 million in 2022. OPEC crude production will reach an average of 27.2 million barrels per day in 2021 and an average of 28.2 million barrels per day in 2022.

In 2020, coal prices showed a downward trend, reaching a low of 38.5 \$/tonne in May and then rising again to 66.8 \$/tonne in December. On average in 2020, the price stood at 50.0 \$/tonne, showing a decrease of 16.9% compared to the figure of the previous year (60.2 \$/tonne). The slight depreciation of the euro against the dollar intensified the downward trend in euro prices (-18.3%) compared to 2019. For 2021, forward curves indicate prices with average values close to 65.9 \$/tonne.





# 4

## Evolution of the regulation and impacts on the Business Units of the A2A Group



### EU Green Deal

The Green Deal (GD) is a Communication from December 11, 2019 with the Von der Leyen Commission's priorities, focused on the commitment to sustainable development and the fight against climate change with the aim of strengthening the EU's leadership as the largest global market capable of influencing international policies and sharing the policies with local communities.

The GD requires all EU policies to be consistent with environmental objectives and is an integral part of the UN strategy for the Agenda 2030 and for the Sustainable Development Goals, providing for the new governance to work alongside Member States, with specific focus on the energy, transport and circular economy sectors.

Among the measures that will guide policies from a transversal perspective, after analysis of socio-economic and environmental trade-offs, is the promotion of: regulation and standardization, investment in innovation, national reforms (industrial and fiscal policy), social dialogue and with international partners.

In March 2020, the Commission published a Climate Law proposal to pursue the goal of climate neutrality by 2050 (by which to zero net emissions of CO<sub>2</sub>). In July 2020, the two Communications on Hydrogen and Energy System Integration were published, while in the fall, the consultation was completed on the Carbon Border Adjustment Mechanism, an instrument provided by the GD to protect European industry from the import of goods produced in non-EU countries that have less stringent rules in terms of CO<sub>2</sub> emissions.

Following the ongoing consultations, the ETS (with the aim of ensuring effective carbon pricing for the economy and increasing the commitment of all sectors, such as residential), RED (on renewable sources) and EED (on energy efficiency) Directives will be revised by summer 2021.

The Commission also launched specific initiatives to strengthen the strategic commitment to sectoral integration (i.e., the synergistic management of different energy carriers, including through storage systems), the development of the hydrogen supply chain, the circular economy, sustainable mobility and the energy requalification of buildings ("Renovation wave").

In order to ensure the adherence of all EU legislation with the objectives of the GD, the Commission has also reviewed the State Aid Guidelines for Energy and Environment (to be approved in 2021 with effect from 2022) and the Taxonomy for Sustainable Investments.

To achieve the GD targets, massive public investment is required to steer private investment towards sustainability goals: 260 billion euro of additional investment per year (1.5% of EU GDP) will have to be secured - this is why the Commission will present a Sustainable Europe Investment Plan. Furthermore, 25% of the EU budget will have to be allocated to climate action, in addition to direct revenues to be used for this purpose (i.e. taxes on non-recyclable plastic packaging and possible allocation of 20% of ETS revenues). The role of the Innovation and Modernisation Fund (EIB) will also be reviewed, in addition to the instruments provided by the Horizon 2020 Programme. With the introduction of the Recovery Fund as a result of the pandemic emergency, the Commission has channelled significant financial resources for the relaunch of the economy (for Italy, about 210 billion euro), with plans to allocate a significant portion of them to the renewable energy, energy efficiency, circular economy, energy infrastructure, storage and hydrogen sectors.

### Taxonomy for sustainable investments

On July 12, 2020, Regulation 2020/852 (EU) on the Taxonomy for Sustainable Investments came into force, under which the Commission was tasked with presenting screening criteria for sustainable investments, through the adoption of six "delegated acts" aimed at defining the technical requirements that will have to demonstrate the initiatives that can be classified as sustainable in light of the Taxonomy itself (and in particular, the relevance of the environmental contribution provided by the various technologies and the possible risks on the other objectives identified by Reg. 2020/852).

Following the political agreement between the Member States and the definition of a technical report by a dedicated technical expert group, the first two delegated acts, relating to climate change adaptation and mitigation activities, were placed for consultation on November 20, 2020. The Commission's proposal, applicable as of January 1, 2022, is expected in the first half of 2021, and will be submitted to the EU Council for approval.

The relevance of the Taxonomy depends on the invasiveness it will have on the Directives (renewables, energy efficiency, circular economy) and especially on the financing channels for green activities (from the Recovery Fund to national incentives). This concerns in particular those assets which, as in the case

of the gas and waste-to-energy sectors, have not been included in the Taxonomy even though they are necessary for the transition towards decarbonisation.

EU Renewable Energy Financing Mechanism

The Commission's Implementing Regulation (EU) 2020/1294 introduced, as of the beginning of 2021, the launch of the EU Renewable Energy Financing Mechanism, which aims to support the implementation in another (host) state, including outside the EU, of projects involving renewable energy sources. The mechanism will allow, through loans and/or grants, acting on two specific EU objectives: allow Member States to close any gap with the indicative promotion trajectory for renewables (32% of gross final energy consumption by 2030) and contribute to a favourable EU framework for investment in renewable capacity.

The mechanism, which is also open to private contributions, provides for statistical benefit-sharing mechanisms in the development of new renewable capacity. It will be managed by the EU Commission, which will formulate the calls by bringing together potential investors and hosts, consistent with the Renewable Energy Directive (RED 2) and the Taxonomy for Sustainable Finance. The Commission is currently carrying out surveys in preparation for the first call.





# 4.1 Generation and Trading Business Unit

## Regulatory measures adopted to deal with the COVID-19 health emergency

In view of the difficulties of correctly predicting the consumption levy profile and the emergence of significantly different MSD prices compared to the MGP values, the Authority, by means of Resolutions 121/2020/R/eel and 207/2020/R/eel, has provided for the application of a cap & floor mechanism to the prices of imbalances for consumption units and for non-authorised production units from March 10 to June 30.

With reference to the capacity market regulations, Terna S.p.A. intervened with reference to the 2022 and 2023 deliveries, granting an extension to the deadlines for submitting authorisation certificates in the case of new non-authorised capacity and for the deadlines for the start of the delivery period for new capacity. In the latter case, the final term of the Contract shall also be extended by a period equal to the extension granted for the start of the delivery period. The new terms are:

- presentation of the authorisation certificates for the new non-authorised capacity: by December 31, 2020 (for delivery 2022) and by June 30, 2021 (for delivery 2023);
- start of delivery for new capacity (subject to reasoned request): July 01, 2022 (for delivery 2022) and July 01, 2023 (for delivery 2023).

## Remuneration of production capacity availability

The mechanism for remunerating the availability of production capacity in force until 2021 is the Capacity Payment defined in 2003 by Legislative Decree no. 379 as an administered, transitional system aimed at ensuring the adequacy of the electricity system during critical days, identified by Terna S.p.A. with reference to which the difference between supply and demand could be at minimum levels.

This mechanism has been operating since 2004 as a result of Resolution 48/04, which provides that the Authority determines ex ante a specific revenue (about 180-200 million euro/year) collected through electricity bills and paid in the form of two payments (CAP1 and S) to generation plants authorized for the provision of dispatching services and that are available on critical days.

In 2020, based on Resolution 437/2019/R/eel, the items relating to the capacity payment were settled for approximately 26 million euro.

Legislative Decree no. 379 of 2003 had also required that, under regime, the availability remuneration was to be based on a market mechanism (capacity market), which was subsequently envisaged by Resolution ARG/elt 98/11. This mechanism technically consists of a one-way contract for differences, that is an auction in which operators awarded acquire the right to receive a bonus (in €/MW/year) with respect to the obligation to offer all the capacity committed in the MGP and the capacity not accepted as a result of the energy markets (MGP and MI) on MSD, returning to the counterparty Terna S.p.A. the difference - if positive - between the market benchmark prices and a strike price (in €/MWh).

After lengthy discussions with the European institutions and numerous consultations within the Italian context, and the endorsement of the capacity market by the Commission, the Italian Ministry of Economic Development (MiSE) approved Terna S.p.A.'s regulation with Ministerial Decree of June 28, 2019 (after ARERA's positive opinion issued with Resolution no. 281/2019/R/eel), providing:

1. insolvency proceedings in 2019 for deliveries 2022 and 2023;
2. participation in auctions of existing, new, refurbished, repowered or upgraded capacity. New capacity, which has not been granted an authorization but for which the relevant procedure has been initiated on the qualification date, can be selected in an additional session of the auction that is activated only if the capacity requirements below which the system is inadequate are not met, i.e. the quantity guaranteeing a maximum of 6 h/year of detachment for each area of the market (see point 5);
3. exclusion from participation of existing capacity exceeding both of the following emission limits at the same time (i.e. coal and oil): emissions exceeding 550 g CO<sub>2</sub>/kWh (certification in qualification stage), emissions exceeding 350 kg CO<sub>2</sub>/kW/average year (ex-post verification); New capacity is excluded only when the limit of 550 g CO<sub>2</sub>/kWh is exceeded;
4. non-cumulation of the consideration with certain incentives provided by the GSE during the delivery period (tariffs, Dedicated Withdrawal and Exchange on Site);
5. the target value of the LOLE indicator (loss of load expectation), which expresses the level of adequacy of the Italian electricity system of 3 h/year, is confirmed. The Ministerial Decree establishes an additional level of adequacy of the system, below the target level of 6 h/year, used for the definition of capacity requirements and below which the system is inadequate, is also indicated.

By Resolution 363/2019/R/eel, ARERA subsequently set:

- cap on the premium: 75,000 €/MW/year for new capacity, 33,000 €/MW/year for existing capacity (same as for foreign capacity);
- minimum investment value for new capacity that may require 15-year contracts of 209,000 €/MW;
- criteria for determining the strike price through the indexing of the element to cover the monthly gas price, which reflects market trends, in addition to the provision of a price risk mitigation mechanism in the event of a gas emergency.

By way of Resolution 364/2019/R/eel, ARERA expressed its opinion on the conformity of the Technical Operating Provisions, placed for consultation by Terna S.p.A., while by way of Resolution 365/2019/R/eel, it established the methods for determining and covering the net charges deriving from the mechanism for the years 2022 and 2023, providing:

- recovery of net expenses through a fee charged to the dispatching user in withdrawal, exempting users in withdrawal assignees in the capacity market;
- 70% of the net expense is covered according to the dispatching user's withdrawals during peak hours set by Terna S.p.A. when the stress on the electricity system is greatest;
- annual update of the peak unit fee (70%) and quarterly update of the off-peak unit fee (30%). Variable fees, penalties and other economic items that cannot be determined annually are applied in updates of the off-peak unit fee.

During the auctions held on November 6 and 28, 2019, A2A S.p.A. was awarded all the capacity offered, i.e. around 5 GW/year for a total of 340 million euro bonus over the two-year period 2022-2023. Approximately 0.24 GW for 2023 and 0.12 GW for 2022 are related to new capacity. The award price was 33,000 €/MW/year for existing capacity and 75,000 €/MW/year for 15 years for new capacity.

Some operators (including Tirreno Power S.p.A. and Axpo Italia S.p.A.) and Associazione Italia Solare filed an appeal for the annulment of the Ministerial Decree Ministry of Economic Development of June 28, 2019 and related acts of ARERA and Terna S.p.A. Some have filed appeals with the EU Court of Justice. The Regional Administrative Court (TAR) hearing on the merits is scheduled for March 24, 2021, and the dispute at EU level is likely to be concluded at the same time as the TAR hearing. A2A S.p.A., together with other operators, has appeared as a counterparty both in Italy and the EU to defend the legitimacy of the award.

In June 2020, Italy submitted to the European Commission the Implementation Plan, a document that illustrates the measures in place or planned to overcome the adequacy problem that justified the introduction of the capacity remuneration mechanism in Italy (in compliance with article 20 of EU Regulation 943/2019). Last October, the European Commission expressed a favourable opinion on the Plan, requesting some modifications.

Preparatory activities are currently being assessed to launch additional capacity market auctions for deliveries from 2024 onwards.

### Remuneration of plants essential for the safety of the electricity system

By means of Resolution 803/2016/R/eel, the 220 kV plant of the San Filippo del Mela power plant (groups 2, 5 and 6) was contracted by Terna S.p.A. under essentiality regime with the reintegration of costs for the five-year period 2017-2021 in consideration of the fact that the Sorgente-Rizziconi power line connecting Sicily to the Continent may not always be available (for example for maintenance) and the market in the Sicily area is currently still short in terms of supply. The Resolution establishes that group 1 at 150 kV is for back-up in the event of unavailability of group 2.

A2A Energiefuture S.p.A. undertook to contain the requests reinstatement of costs below a cap proposed by the company that ensures at the same time the coverage of fixed costs, variable costs of management and equitable remuneration, as well as a saving for the system as said level of reinstatement is lower with respect to the calculation provided by the standard must-run regime (pursuant to Resolution 111/06). The long-term contractualization of San Filippo del Mela therefore allows managing the plant in profit ensuring to the system the maintenance of safety with a benefit in terms of overall cost savings.

In 2020, the Authority ordered:

- with Resolution 381/2020/R/eel, the payment of 8.6 million euro corresponding to the balance of the reinstatement fee for the year 2017;
- with Resolution 451/2020/R/eel, the payment of 20.6 million euro as the second advance payment relating to the year 2019;
- with Resolution 530/2020/R/eel, the payment of 27.7 million euro as the first advance payment relating to the year 2020.

In 2020, ARERA also accepted two requests from A2A Energiefuture S.p.A. concerning the variable cost recognized:

- Resolution 87/2020/R/eel confirmed the application of the standard percentages used to calculate the component covering the imbalance fee valid for 2016 (2% on both sides of the imbalance) for the entire 2017-2021 contractual period, so as to take into account the technical specificities of the San Filippo del Mela power plant (it was possible to recover about 900,000 euro over the 2017-2019 period);
- Resolution no. 442/2020/R/eel confirmed for 2020 the recognition of a fuel procurement price calculated on the basis of the formula proposed by the company, which takes into account the quoted products procured, re-proportioned so as to obtain the reference sulphur level compliant with the environmental regulations envisaged for the plant.

Finally, taking into account the conditions of the Sicilian electricity system, Terna S.p.A. declared the plant "essential" even after December 31, 2021 and with Resolution no. 269/2020/R/eel, the Authority approved the application for the reinstatement of costs for 2022, without the provision of commitments on the amounts recognized (overall the reinstatement is estimated at 82 million euro over the two-year period 2021-2022).

## Valuation of electrical imbalances

Resolution no. 111/06 defines the rules for the calculation of imbalance prices to be applied to the differences between the feed-in and consumption plans and the actual production and withdrawals. The containment of these imbalances is desirable because it favours the reduction in costs that fall on the bill of end customers as Terna S.p.A., in the face of more accurate forecasts by dispatching users, uses fewer resources for balancing the system in real time.

For this reason, the discipline of these imbalances has been the subject of several amendments by the Authority in order to align the regulation to the need for an efficient market configuration, pushing operators to make increasingly better production and consumption forecasts, avoiding arbitrage between prices on different markets.

### Period July 2012-August 2014 (excluding June 2014)

Relating to the period July 2012 - August 2014 (excluding June 2014), by way of the appeal filed by some operators, Resolutions no. 342/2012/R/eel, no. 239/2013/R/eel and no. 285/2013/R/eel were annulled by the administrative judge for non-justification on the urgency of measures and for non-consultation. Terna S.p.A. therefore made recalculations of imbalance prices applying the discipline in force before and the adjustment invoices - despite the objections by the A2A Group companies - were directly compensated at June 30, 2015 (for a gross amount of approximately 6.8 million euro).

The Authority initiated a process for the valorization of the actual imbalances between 2012 and 2014, by means of Resolution 333/2015/R/eel.

A2A Trading S.r.l. (now A2A S.p.A.), Edipower S.p.A. (now A2A S.p.A.) and A2A Energia S.p.A. appealed to the Lazio Regional Administrative Court against the recalculations carried out by Terna S.p.A. as it did not take into account this initiation of proceedings. After about a year of consultations, Resolution 333/2016/R/eel closed the valuation process of imbalances for the period 2012-2014 and ordering no later than November 1, 2016, repayment by Terna S.p.A. to the A2A Group companies of the amount compensated in June 2015.

The Resolutions were the subject of a lengthy administrative dispute. In June 2020, the Council of State issued the first ruling in favour of the Authority's actions and against one of the appellants, defining the case law of reference for further pending appeals. This decision allowed the Group to confirm in 2020 the amounts already collected in 2016.

### Period January 2015 - June 2016

In June 2016, given the significant increase in imbalance costs, the Authority launched a survey in order to verify possible conduct on wholesale markets detrimental to the right of end users and other operators for correct determination of the value of dispatching resources, as well as to cancel any impacts of said conduct in terms of increased imbalance prices.

As part of this investigation, by means of Resolutions 342/2016/E/eel and 459/2016/E/eel, numerous individual proceedings were initiated for the adoption of prescriptive and/or asymmetrical regulation measures. In particular, proceedings were opened for the A2A Group with respect to:

- A2A Energia S.p.A., A2A Trading S.r.l. (now A2A S.p.A.), Linea Più S.p.A. (now A2A Energia S.p.A.) and Encicity S.r.l. (now Suncity Energy S.r.l.), which was notified Resolution 342/2016/E/eel;
- A2A Energiefuture S.p.A., which was notified Resolution 459/2016/E/eel.

These proceedings have been concluded with:

- filing for A2A Energia S.p.A. as there are no conditions for the adoption of prescriptive measures or to initiate sanction proceedings;
- adoption of a prescriptive measure with respect to Linea Più S.p.A. (now A2A Energia S.p.A.), which imposes returning approximately 3.9 million euro to Terna S.p.A.;
- adoption of a prescriptive measure with respect to Enercity S.r.l. (now Suncity Energy S.r.l.), which requires the return to Terna S.p.A. of approximately 737 thousand euro;
- filing for A2A Energiefuture S.p.A. following the subjection of the San Filippo del Mela plant to the essential regime pursuant to Resolution 803/2016/R/eel;

In the context of Resolution no. 342/2016/E/eel, the Authority also initiated numerous sanction proceedings that concerned the A2A Group:

- A2A Trading S.r.l. (now A2A S.p.A.) for violation of article 14.6 of Resolution 111/06 ("diligent planning"). Although the Authority found that the conditions for adopting a prescriptive measure did not exist, by way of Resolution 122/2018/S/eel it imposed on the company a reduced pecuniary administrative sanction of 22,500 euro;
- Linea Più S.p.A. (now A2A Energia S.p.A.) for violation of article 14.6 of Resolution 111/06 (diligent planning) with the imposition of a fine of approximately 1.5 million euro (Resolution 164/2018/S/eel);
- Enercity S.r.l. (now Suncity Energy S.r.l.) for violation of article 14.6 of Resolution 111/06 ("diligent planning"), with measure DSAI/81/2017/eel. In this case, the proceedings have not yet been concluded.

Linea Più S.p.A. (now A2A Energia S.p.A.) appealed against both the prescriptive measure and the penalty measure (appeal still pending). Enercity S.r.l. (now Suncity Energy S.r.l.) also appealed in court against the prescriptive measure and the appeal to the Council of State is currently pending (hearing on the merits set for next May 20).

In 2019, A2A Energia S.p.A. and Suncity Energy S.r.l. settled the amounts of the prescriptive measure to Terna S.p.A. and A2A Energia S.p.A. also the amounts of the fine to ARERA.

On July 6, 2020, the first ruling was published of the Council of State upholding an appellant and opposing the Authority's actions. The administrative judge did not contest the power of ARERA to impose sanctions (confirming that the strategic imbalances are unlawful), but found failure to investigate and provide reasons, annulling the relevant prescriptive measure, without prejudice to the Authority's power of review. On the basis of this ruling, on September 24, the Council of State upheld A2A Energia S.p.A.'s appeal against the prescriptive measure and Terna S.p.A. paid the sum of 3.9 million euro in November 2020. In light of the Authority's power of review, the Group has established a provision of the same amount.

### Forward procurement of resources for voltage regulation in the Brindisi area

Resolution 675/2018/R/eel approved the Regulations and the Draft Contract proposed by Terna S.p.A. for the forward procurement of resources for voltage regulation in the Brindisi area. The supply of reactive energy is necessary not only to maintain the stability of voltage in the area, compromised by the presence of intermittent renewable sources, but also to reduce dispatching costs in the shortest possible time.

Below are the main features of the auction that took place on February 20, 2019:

- quota of 500 MVar/year and contract duration of 10 years;
- spending cap: 500 MVar\*Reservation Price (RP in €/MVar/year) or maximum price selectable, not known to participants, defined by Terna S.p.A. on the basis of the benefits expected from the forward contract and approved by the Authority;
- pay as bid auction with selection of bids not exceeding the RP and priority to resources available from March 1, 2020, in ascending order of price, then to resources available from July 1, 2020 and finally from October 1, 2020 (three time windows for entry);
- envisaged up to 4 rounds of competition. The selection ends in round 1 if the target quantity is reached while respecting the RP and spending cap. Alternatively, we proceed with 3 more rounds.

Following the auction, A2A Energiefuture S.p.A. was awarded 286 MVar of reactive energy at a weighted average price of 28,098 €/MVar/year. The first device came into operation on March 1, 2020 and the second on June 1, 2020, one month ahead of the auction.

The contract provides for the supply of continuous and automatic voltage regulation, without active input, for a value no lower than the contracted power (net of scheduled maintenance and periods of accidental unavailability subject to deductibles). The remuneration is composed of a fixed part - to cover the investment/remuneration and equal to the product between the capacity committed and the price

offered - and a variable part - to cover the costs related to the withdrawal of electricity necessary for the operation of the device - net of any penalties. The economic adjustment is made on a monthly basis. Programmed and accidental unavailability up to a certain threshold is not subject to a penalty, while beyond this threshold there are penalties, which can reach, for each calendar year, up to 120% of the remuneration for each unavailable device. Finally, the guarantee requested by Terna S.p.A. is equal to 120% of the remuneration covered by the contract.

The total annual turnover is approximately 3.5 million euro.

## Incentives for production from renewable sources

Legislative Decree March 3, 2011, no. 28, in implementation of Directive 2009/28/EC, defined the framework of incentive schemes for electricity production from renewable sources in order to pursue the European strategy for the development of the sector. This Legislative Decree was followed by the Ministerial Decree of July 6, 2012 and June 23, 2016 relating to new investments in plants from renewable sources other than photovoltaic.

As of January 1, 2016, plants from renewable sources that began operating before December 31, 2012 and that are part of the previous incentivizing scheme of Green Certificates (GC) are recognized an incentive paid by the Energy Services Manager (GSE) on net production for the entire remaining period of the right to GCs and that is added to the sales revenues on the market. Said incentive (I) is equal to:

- $I = k \times (180 - Re) \times 0.78$ ;
- $k$  = technological coefficient of 1 for plants that entered into operation by December 31, 2007 and for subsequent ones, it assumes the values defined by Law no. 244/2007;
- $Re$  = is the sale price of electricity on the market, recorded in the previous year and communicated by the Authority.

In 2020, the incentive (I) was 99.05 €/MWh (in 2019, it was 53.01 €/MWh).

A similar instrument is granted to plants that benefited from the GCs issued on cogeneration combined with district heating for which the incentive (I) is set at 84.34 €/MWh (calculated with respect to the average market price recorded in 2010).

As of January 1, 2016, incentives are paid quarterly by the GSE by the second quarter following the reference one and on the basis of the signing of an Agreement and upon registration and validation of the plants on the GSE portal.

With reference to the grid-connected photovoltaic plants, Legislative Decree December 29, 2003, no. 387, introduced the Energy Account mechanism, providing for an operating incentive paid by the GSE in the form of feed-in-premium (i.e. a production premium that is added to the selling price on the market, differentiated according to the size of the plant and its innovative characteristics paid for 20 years). From 2005 to 2013, 5 Energy Accounts were introduced, each one updating the previous one. The incentives of the 5th and last Energy Account have no longer been applied since July 6, 2013 due to the achievement of the ceiling of 6.7 billion euro of annual expenditure provided by the Ministerial Decree of July 5, 2012.

On June 14, 2019, the EU Commission approved, under the State Aid Guidelines, the new support scheme for renewable electricity and on July 4, 2019, MiSE, in agreement with MATTM, adopted RES1 Ministerial Decree, which defines the incentive framework for renewable sources considered mature and with low or however, decreasing fixed costs: wind, photovoltaic, hydroelectric, and sewage biogas.

For plants with a power of less than 1 MW, incentives are granted through registration in registers, while for plants with a higher power there is a downward auction (7 tenders until 2021), with bonus mechanisms (e.g. self-consumption, photovoltaic with asbestos removal), specific priority criteria for access and remuneration up to 20/30 years.

The incentive mechanism is of the Contract for Differences type: the operator is awarded a tariff (strike) and the GSE pays, if positive, the difference between the strike and the zonal hourly price while, if negative, the operator returns to the GSE. The total expenditure ceiling is always 5.8 billion euro/year for a maximum quota of 8,000 MW that can be allocated to new/renovated plants that will be commissioned by 2022/2023, depending on technology and size.

In December 2019, the GSE launched a consultation on the definition of the standard contract for the allocation of incentives: this private law contract must be entered into by the person responsible for each individual plant following the achievement of the right of access to the incentives and will be approved by ARERA.

4 Evolution of the regulation and impacts on the Business Units of the A2A Group

In January 2020, the GME launched a consultation on the Market platform for long-term trading in energy from renewable sources, as provided for by the Ministerial Decree RES1.

As part of the COVID-19 emergency, the Government intervened with Decree Law no. 76 of July 16, 2020 (Simplification Decree Law) simplifying the authorization and environmental impact assessment procedures and introducing the possibility of accessing the incentives also for non-photovoltaic systems that did not participate in the incentive spread, providing separate procedures with an ad hoc quota and a rate reduced by 5%. In addition, in view of the state of emergency extended to January 31, 2021 with the Prime Ministerial Decree of October 7, 2020, the GSE updated the terms of the obligations in particular in relation to the RES Decrees.

In the first auctions for access to incentives, which opened on September 30, 2019, January 31, 2020 and June 30, 2020, A2A Energy Solutions S.p.A. was awarded a total of approximately 4.2 MW of photovoltaic plants to replace asbestos (type A-2). At December 31, 2020, the incentives granted by the GSE amounted to 60.6 million euro.

GSE Incentive Type millions of euro	12 31 2020		
	A2A	LGH	ENERGY B.U.
Feed in tariff	27.2	2.1	29.3
All-inclusive rate	5.8		5.8
Energy account (FV)	25.3	0.2	25.4
<b>Total</b>	<b>58.2</b>	<b>2.3</b>	<b>60.6</b>

Large hydroelectric derivation concessions

Law no. 12/2019, converting Decree Law December 14, 2018 no. 135/04 (Simplification Decree Law) amended with article 11-quater the rules governing large-scale derivation hydroelectric concessions (plants with nominal power of more than 3 MW).

Previously, if these concessions expired, they were exercised by the concessionaires under temporary continuation, under unchanged conditions, pursuant to article 12, paragraph 8 bis, of Legislative Decree 79/1999 pending the launch of tenders for reallocation, which would be based on criteria defined by a Ministerial Decree agreed between MiSE and MATTM, and adopted in agreement with the Unified State-Regions Conference, which was never issued.

The new rules provide that the Regions shall regulate with their own laws by March 31, 2020 (deadline extended to October 31, 2020 by the Cura Italia Law Decree, and to date not respected by most Regions) methods, procedures and criteria for the allocation of concessions, which may be entrusted to economic operators identified through a tender, or to public/private joint ventures with selection of the private partner through a tender, or through forms of partnership under Legislative Decree 50/2016. The procedure for awarding the contract must be started within 2 years of the entry into force of the Regional Laws and, in any case, no later than October 31, 2022.

The Regions may also require concessionaires to supply 220 kWh per year free of charge for each kW of average rated power of concession.

For concessions expired, exercised under temporary continuation, an additional fee is also charged. Article 11 quater, Law 12/2019 repealed the aforementioned paragraph 8 bis of article 12 of Legislative Decree 79/1999.

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

- for wet works: the transfer without compensation of ownership to the Regions, except for the compensation only of investments not yet amortized;
- for dry works: the recognition of a residual value derived from accounting records or certified appraisal. In the event of non-inclusion in the project of the incoming concessionaire, removal and disposal of movable property is envisaged at the expense of the proposer, while immovable property remains the property of the entitled parties.



On April 8, 2020, Lombardy Region enacted Regional Law no. 5/2020, which governs the methods and procedures for awarding concessions for large-scale hydroelectric derivations and determines the related fees. The law has established the public tender as the main method of allocation, while the deadline for the start of the procedures is set:

- for concessions that have already expired and are in temporary continuation within 2 years of the entry into force of the law (i.e., by October 31, 2022), with re-allocation by July 31, 2024;
- for concessions expiring after the entry into force of the regional law: within 2 years of expiry.

The new state fee will have a fixed part related to the concession power equal to 35 euro/kW to be paid every six months from 2021, and a variable part equal to a minimum of 2.5% of the revenues from the sale of the energy annually fed into the grid by the plant, net of the energy supplied free of charge to the Region, to be paid by March 31 of the following year.

Regional Law 23/2019 also imposed on concessionaires, starting in 2020, the obligation to provide free electricity to the Region to be used for at least 50% for public services in the provinces concerned with the derivation (220 kWh for each kW of concession power), providing for the possibility of monetizing the fulfillment.

Lastly, an annual additional fee of 20 euro/kW is payable in Lombardy Region for concessions under temporary continuation, by way of recognition.

In consideration of the regulatory context described above, on June 12, 2020, the President of the Council of Ministers filed an appeal for constitutional illegitimacy against the Lombardy Regional Law with regard to certain important aspects of the aforementioned regional legislation. Regional laws concerning large-scale hydroelectric derivations of the Piedmont Region and the Autonomous Province of Trento have also been challenged before the Constitutional Court by the government.

Most of A2A S.p.A. large-scale derivation concessions located in Valtellina (for a nominal concession power of around 200 MW) have expired<sup>1</sup> and exercised under temporary continuation, also in accordance with Regional Council Resolution December 30, 2020, no. XI/4182 of the Lombardy Region. The Region has already requested payment of the additional fee, which has been provisionally set at 20 euro/kW, and ordered non-application of the partial exemption from the State fee for the Premadio 1, Grosio, Lovero and Stazzona plants<sup>2</sup>.

With reference to the Premadio 1 concession, the Supreme Court rejected<sup>3</sup> A2A S.p.A.'s appeal against Sentence no. 3/2017 of the Higher Public Water Court (TSAP), before which A2A S.p.A. had challenged the regional resolutions containing the conditions for the temporary continuation of this concession, including the revocation of the partial exemption from State fees. As a result, for Premadio 1, A2A S.p.A. has paid the relevant portion of the State fee, amounting to approximately 4.8 million euro, reserving the right to recover any amounts not considered due in the future. The judgment before the Higher Public Water Court regarding a partial exemption from the State fee for the Grosio concession is still pending.

The unpaid past years of the additional fee - relating to the expired concessions of A2A S.p.A. and Linea Green S.p.A.<sup>4</sup> in the period from January 1, 2011 to December 31, 2019 - are still the subject of provisions in the financial statements given the continuation of the related judgments.

Instead, A2A S.p.A. and Linea Green S.p.A. have paid the additional fee for the year 2020, due to the regulatory amendments of 2019, for an amount of approximately 4 million euro, reserving the right to recover any amounts not due in the future.

Other A2A S.p.A. hydroelectric concessions (plants in Mese, Udine and Calabria with total nominal power of about 345 MW) expire in 2029. The three large-scale derivations of Linea Green S.p.A. (Resio, 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.

1 The concessions of Grosotto, Lovero and Stazzona expired December 31, 2010 while the one of Premadio 1 at July 28, 2013 (Premadio 2 has validity until December 31, 2043). The Grosio concession expired on November 15, 2016.

2 Despite the non-application of the partial exemption of the State fee for the Lovero and Stazzona concessions only with Regional Council Resolution no. XI/4182/2020 starting from 2021, the Lombardy Region has requested the payment of the exempted State fees for the aforementioned concessions also for the previous years. This request has been contested to date by A2A S.p.A..

3 Sentence no. 15990/2020 of the United Sections of the Supreme Court. For further information, reference should be made to the section entitled "Update of the main legal and tax disputes still pending".

4 Linea Green S.p.A. holds the Resio concession in Valcamonica, which expired on October 31, 2010, and also operates under temporary continuation of operation.



## Transport and metering of natural gas for the fifth regulatory period (2020-2023)

Resolution 114/2019/R/gas approved the criteria for regulating tariffs for the natural gas transportation and metering service for the fifth regulatory period (RTTG 2020-2023), while the 2020 fees were approved with Resolution 201/2019/R/gas. In accordance with the provisions of the TAR Code (Regulation (EU) 460/2017), the new tariff period is characterized by some methodological introductions:

- the division of the tariff structure and the fees that make it up between capacitive components (applied at the points of entry and exit from the network) and components linked to the volumes transported is confirmed. In relation to the capacitive components, the allocation of the costs entry-exit 40(entry)-60(exit) of costs relating to the national network is confirmed, while, unlike the previous tariff period, the costs of the regional network are attributed 100% to the exit component. The overall ratio is 28(entry)-72(exit);
- for the purpose of calculating the unit fees of the tariff, the Authority adopted the Capacity-Weighted Distance (CWD) method. The Authority applied a 50% discount to the entry/exit fee for storage facilities resulting from the application of the CWD method. The storage entry/exit points have also been reduced from 3 to 1, the exit areas from 6 to 1 and the entry points from domestic production have been merged into 10 hubs;
- a bundled tariff (single fee that includes exit and redelivery fees) is defined as from October 2020. For the thermal year 2019-2020, capacity transfers were made at both exit and redelivery points (PdR) and for the transitional period from January 1 - September 30, 2020, the pro-forma fees were applied  $CP_u^N$  (applied to transfers to exit points of interconnections between the national and regional networks) and  $CP_u^R$  (applied to regional network transfers). In relation to the latter, two separate fees are determined according to the distance of the PdR from the national network ( $</>15$  km). With reference to the PdR underlying the city gates, the Authority has provided for the reform of the transfer methods which, as a result of Resolution 110/2020/R/gas will come into force on October 1, 2021, providing for:
  - ex officio determination of the transport capacity of the PdR underlying the city gates;
  - allocation of capacity by the transport company to each BU for the supply of the PdR served;
  - overcoming the variance penalties system for the PdR underlying the city gates;
- the variable fee  $CV_v$ , used to cover operating costs, GNC, self-consumption, losses and ETS costs and is applied to the quantity of gas withdrawn from a network exit point (including exit points to storage facilities and points of interconnection with foreign countries);
- a new volumetric fee ( $CV_{FC}$ ) is introduced for the purpose of recovering sums relating to revenue adjustment factors, applied to redelivery points and exit points of storages;
- with reference to the metering tariff: a tariff structure is adopted which, in exchange for the possibility for end customers directly connected to the transport network to transfer ownership and management of the metering plant to the transport company, provides for the introduction of a  $CM^{CF}$  tariff component, applied to the capacity transferred to the redelivery points that supply end customers, the metering plant of which is owned by the transport company.
- with reference to tariff components that cover general gas system charges: some changes were introduced, including the elimination of the  $\phi$  tariff component and the application of the  $CRV^{FG}$  component to PdR that supply distribution networks and those that supply direct end customers connected to regional networks, instead of the volumes of gas injected into the national network.

Regarding the expected impacts of the tariff forecasts for the fifth regulatory period:

- there was a general increase in 2020 fees compared to 2019. Entry points were the most penalized (+20% for Tarvisio, +96% for Passo Gries) and there was a partial reabsorption of the tariff differences between North and South. Entry costs from regasification terminals also increased (+290% for Olt). Increases in exit were more contained, except for storage exit (+71%). The tariff increases are attributable both to the new tariff methodology and to the increase in revenue to be paid to transport companies;
- for the thermoelectric plants of the A2A Group, compared to 2019, the effect of the regulatory amendment entails - with the same transfer - a decrease in fixed costs in 2021 of approximately 6.4 million euro and - with the same gas withdrawal - an increase in variable costs of approximately 8.5 million euro in 2020 and 6.8 million euro in 2021.

Lastly, the Milan Regional Administrative Court (TAR), upholding the appeal filed by an operator, annulled the transport tariffs for the fifth regulatory period, finding that the approach adopted by the Authority violated Decree Law no. 83 of 2012, which required it to "adjust the system of natural gas transport tariffs in accordance with criteria that make the transport service more flexible and cost-efficient for parties with higher natural gas consumption". Instead, the 40%-60% entry-exit allocation of costs for the national network penalizes parties with higher natural gas consumption and is in conflict with EU regulations. The Authority appealed against this ruling to the Council of State by way of Resolution 17/2021/C/gas. The same Milan Regional Administrative Court had already annulled the transport tariffs

for the 2018-2019 transitional period: the Authority also appealed against this annulment (Resolution 103/2020/C/gas).

## Settlement gas: new regulation from January 1, 2020

Gas settlement consists in the management, planning and implementation of programmes aimed at ensuring the balance and equilibrium of the national system. The regulation defined by ARERA is aimed at ensuring the efficient provision of gas balancing services, in particular with regard to the determination of physical and economic items for each user (carriers, users of balancing (UoB), users of distribution (UoD), sellers and end customers).

With Resolutions 72/2018/R/gas and 148/2019/R/gas, ARERA approved the new regulations for gas settlement (TISG - Consolidated Text Settlement Gas), which came into force on January 1, 2020: within this bill, the roles are relevant of the Balancing Manager (Snam Rete Gas S.p.A.) and the Integrated Information System (SII - managed by Acquirente Unico S.p.A.), which is responsible for the activities of profiling, aggregation of metering, calculation of annual withdrawal and allocation of withdrawal profiles.

With Resolution no. 538/2019/R/gas, in order to limit any negative impacts on operators resulting from the application of the new settlement methodology in the presence of capacity transfers made in an earlier period, ARERA introduced some transitional solutions for the calculation of deviations, providing until May 31, 2020:

- decriminalization of overcapacity: the penalties are determined at the minimum value between the penalty calculated on the basis of the allocation according to the new methodology and the penalty calculated on the basis of the allocation re-proportioned on the daily input;
- introduction of transfer sessions for upward capacity revision. Any capacity increases were applied retroactively until October 2019.

Moreover, in 2020, the new mechanism presented some critical issues for which ARERA intervened on several occasions. In particular, the following are noted:

- Resolution 181/2020/R/gas: provided for the extraordinary reworking of the final budgets from January to April 2020 with the application of specific criteria to remedy the anomalies recorded;
- Resolution 222/2020/R/gas: integrated the TISG with regard to the communication of anomalies detected to distribution companies, UoB and UoD as part of the activities for which the SII is responsible. Following this Resolution, Snam Rete Gas S.p.A. developed a procedure for the correction of withdrawals that have not positively passed specific consistency checks. This procedure has had an effect on all the transport budgets for the months of 2020, with the exception of the one for January (already closed at the time of publication), and has allowed the Group to contain the impact of anomalous allocations, although not completely sterilizing them, since there is no possibility of adjusting data that is clearly anomalous but not considered as such by the filters of the consistency checks;
- Resolution 521/2020/R/gas: extended to the entire 2019-2020 thermal year the “decriminalization of overcapacity” referred to in Resolution 538/2019/R/gas previously mentioned and provided for the possibility of capacity increases from October to December 2020 for the purposes of calculating the deviation fees;
- Resolution 3/2021/R/gas: granted the possibility of also adjusting anomalous withdrawal data not intercepted by the checks referred to in article 9 of the TISG, allowing the A2A Group to neutralize further anomalous deviations not already managed.

Finally, Resolution 451/2019/R/gas defined the methods for procurement by Snam Rete Gas S.p.A. of the quantities of gas necessary for the operation of the system, so-called system gas ( $\psi$ ), the sum of self-consumption, network losses, unrecognised gas (GNC), linepack variations and the difference between gas injected into and withdrawn from the distribution networks. This quantity is supplied daily in a compartment of MP-GAS called AGS (system gas supply).

## Closing of the dispute concerning Resolution ARG/gas 89/10 and settlement of amounts

Following the appeal lodged by the A2A Group's sales companies against Resolutions ARG/gas 89/10 and 77/11, by which ARERA introduced an equal reduction coefficient  $k$  applied to the indexed component to cover procurement costs (QE) for thermal years 2010/11 and 2011/12, at the end of a lengthy dispute, the Council of State, with sentence no. 4825 of November 18, 2016, confirmed the reasons of the claimants and annulled the measures.

By means of Resolution 737/2017/R/gas, the Authority redetermined the coefficient  $k$ , while by means of Resolutions 32/2019/R/gas and 247/2020/R/gas, it introduced a mechanism for recognising the

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amounts due to sellers by establishing a socialization component on the distribution tariff and gas metering paid by customers with reference to the first 200,000 Scm consumed (sub-component of  $UG_2$  called  $UG_{2k}$ ).

On May 31, 2019, A2A Energia S.p.A., Lumenergia S.p.A., ACEL Energie S.p.A. and Enerxenia S.p.A. (now ACEL Energie) applied to the CSEA for access for a total of 21.7 million euro, which will be settled in three sessions between April 1, 2020 and December 31, 2021. With regard to the amounts attributable to the Generation and Trading BU of 12.2 million euro, on December 31, CSEA paid 50% of the amount owed, equal to about 6 million euro.

## 4.2 Market Business Unit

### Regulatory measures adopted to deal with the COVID-19 health emergency

In order to cope with the impact that the COVID-19 health emergency had on operators and end customers, and the consequent risk of insolvencies along the entire supply chain, the Authority adopted a series of specific measures, balancing the needs of the various stakeholders involved. With regard to sales companies, the main provisions adopted are as follows:

- deferral of regulatory obligations towards the Authority (including data collection and the conduct of conciliation procedures). Moreover, to take into account the restrictive provisions to protect public health, the Authority has extended the use of force majeure also in regulatory areas where it was not previously foreseen to justify the failure to comply with obligations/performance standards (Resolutions 59/2020/R/com and 94/2020/R/com);
- introduction of exceptions to the rules governing guarantees under the CADE and the CDRG, and the possibility, in April, May, June and July, for sellers and distributors to pay lower amounts than those invoiced, within certain limits defined by ARERA. The amounts not paid will be settled by the end of 2020, pursuant to Resolution 248/2020/R/com (Resolution 116/2020/R/com, as amended);
- suspension of credit protection procedures under TIMG and TIMOE for all customers until May 3, with extension until May 17 for domestic customers only, and mandatory proposal of instalment payments to customers in protection and PLACET (Resolution 60/2020/R/com);
- establishment at the CSEA of a special extraordinary revenue and expenditure account, intended to ensure the financing of initiatives to support end customers related to the epidemiological emergency COVID-19, for 1.5 billion euro (same Resolution 60/2020/R/com);
- suspension of payment terms until April 30, 2020, and subsequent compulsory instalment for customers located in the 11 municipalities of the initial “red zone” (Resolution 75/2020/R/com);
- due to the criticality in the delivery of correspondence, the Authority provided operators with protection services, and with reference to PLACET, contracts to send bills also in electronic format (Resolution 117/2020/R/com);
- in view of the difficulties of correctly predicting the consumption levy profile and the emergence of significantly different MSD prices compared to the MGP values, the Authority, by means of Resolutions 121/2020/R/eel and 207/2020/R/eel, has provided for the application of a cap & floor mechanism to the prices of imbalances for consumption units and for unauthorized production units from March 10 to June 30.

### 2017 Competition Law and termination of price protections for electricity and gas

Law August 4, 2017, no. 124, as amended. (Competition Law 2017) contains provisions aimed at removing regulatory barriers to the opening of markets, promoting the development of competition and guaranteeing the protection of consumers. Article 1, paragraphs 59 to 85, introduces relevant provisions relating to the energy market, providing, inter alia, for the end of price protection schemes from January 1, 2021, for small electricity businesses and from January 1, 2022, for electricity and gas household customers and micro electricity businesses<sup>5</sup>. The Milleproroghe further moved the date of January 1, 2022 to January 1, 2023.

The Authority, while waiting for the government to fulfil its obligations, by way of Resolution 491/2020/R/eel defined the Gradual Protection Service (STG) to be activated as from January 1, 2021 for small businesses, other than micro-businesses, without a supplier on the free market<sup>6</sup>.

For the period from January 1 to June 30, 2021 (provisional regime), the STG will be provided by the current operators of the greater protection at economic and contractual conditions almost unchanged while, from July 1, 2021 (definitive regime), the STG will be provided by operators selected by auction according to these indications:

- the Bankruptcy Procedures - organised by Acquirente Unico S.p.A., which will draw up the relevant Regulations - must be completed by May 31, 2021;
- the assignment will last three years (July 1, 2021 - June 30, 2024);

<sup>5</sup> According to the EU definition, micro-electrical enterprises have fewer than 10 employees and an annual turnover not exceeding 2 million euro.

<sup>6</sup> The perimeter of this first batch will cover about 230,000 subjects between small businesses (number of employees between 10 and 50 and/or annual turnover between 2 and 10 million euro) owners of LV withdrawal points and micro-businesses owners of at least one point of withdrawal with contractually committed power greater than 15 kW that, on December 31, 2020, had not yet chosen supply in the free market.

- the auctions will involve 9 batches of customers (as homogeneous as possible in terms of delinquency rate) with the application of a ceiling defined by the MiSE Ministerial Decree of December 31, 2020 in relation to the areas that can be awarded to a single operator, equal to 35% of total volumes;
- economic offer on the  $\beta$  parameter expressed in €/MWh to cover the costs of marketing and unbalancing not already recognized by ARERA and against which the participants undertake to provide the STG in the batch indicated;
- double round auctions with the batch awarded at the lower end of the  $\beta$  parameter expressed in €/MWh;
- a cap, differentiated by territorial area, and a floor (both not yet known) are applied to the bids submitted from the first round.

A2A Energia S.p.A. will take part in the auctions on behalf of the A2A Group.

The contractual terms and conditions applied to customers will be the same as those applied to customers with greater protection status, while the economic conditions will see the introduction of a “single national fee” (determined by weighting the parameters offered at auction in the various areas).

Lastly, we are waiting for the MiSE Ministerial Decree concerning the Electricity Vendors List and the MiSE Ministerial Decree that will define the methods and criteria for the informed entry of residential customers and micro-businesses into the free market as of January 1, 2022.

Components to cover marketing costs on the electricity protected market, on the free electricity market and on gas protection

Resolution 576/2019/R/eel updated for 2020 the RCV and PCV components to cover marketing costs, respectively, for greater electricity protection and for the free electricity market. The overall impact at A2A Group level was 800,000 euro.

Resolution 577/2019/R/gas updated for 2020 the QVD component to cover gas retail marketing costs. The overall impact at A2A Group level was 4.7 million euro.

By Resolutions 603/2020/R/gas and 604/2020/R/eel, the QVD, RCV and PCV components were updated for 2021. The estimated impact at A2A Group level is approximately -1 million euro. In particular, in both resolutions, ARERA stated that “at the moment, there are no prerequisites for different or additional recognition interventions with respect to the ordinary ones provided by the regulations in force” with reference to arrears rates, which remain in line with those of previous years despite the fact that 2020 was affected by the COVID-19 pandemic.

PCV €/POD/year	2019	2020	2021
	Single national	Single national	Single national
Domestic POD	65.38	65.12	65.44
Various use POD	121.84	125.64	124.71

RCV €/POD/year	2019		2020		2021	
	C-North	C-South	C-North	C-South	C-North	C-South
Domestic POD	26.26	28.97	26.94	29.91	24.42	26.67
Various use POD	51.54	76.02	49.44	71.17	47.42	65.83

	C-North	C-South	C-North	C-South	C-North	C-South
Domestic POD	39.77	42.53	41.55	44.10	41.19	42.66
Various use POD	71.81	116.30	69.67	101.78	72.00	107.73

	C-North	C-South	C-North	C-South	C-North	C-South
Domestic POD	20.97	23.13	21.55	23.92	19.54	21.34
Various use POD	41.15	60.69	39.55	56.94	37.93	52.67

QVD €/POD/year	2019		2020		2021	
	€/PDR/year	c€/mc	€/PDR/year	c€/mc	€/PDR/year	c€/mc
Domestic PDR	60.23	0.7946	63.61	0.7946	62.74	0.7946
PDR condominium home use<200,000	79.11	0.7946	83.55	0.7946	82.39	0.7946

Additional mechanisms to cover efficient costs on the electricity protected market

With reference to the additional cost compensation mechanisms for the greater protection service as per the TIV, the following is noted:

- in March, A2A Energia S.p.A. submitted a request for access to the mechanism regarding the exit of customers from the greater protection service, aimed at recognising the additional fixed cost connected to a customer exit rate towards the free market greater than that implicitly recognised in the definition of the RCV component (PUC 2019), for an amount equal to 250,000 euro (paid in October).
- in April, A2A Energia S.p.A. submitted a request for access to the mechanism to compensate for arrears of end customers of the TIV, aimed at recognizing any charges related to arrears exceeding the unpaid ratio already considered for the purpose of updating the RCV component (COMP 2019), for an amount equal to 1.3 million euro (paid in December).

Two-year prescription for the consumption of electricity and natural gas

Article 1, paragraphs 4-10 of the 2018 Budget Law introduced a two-year prescription for contracts for the supply of electricity, gas and water services in relations between customers and the seller, in relations between the distributor and the seller, and in relations with the transport operator and other parties in the supply chain, as well as the suspension of payments (and reimbursement of payments made) in the case of AGCM procedures for the detection of violations of the consumer code in relation to invoicing, until the legitimacy of the operator’s conduct has been verified.

The Law initially provided that the prescription not be recognized to the customer in the event that the missed or erroneous collection of consumption data was attributable to the customer; however, paragraph 295 of article 1 of the Budget Law 2020 removed this case, providing for the recognition of the two-year prescription period even in cases of ascertained liability of the customer, and in fact, introducing an objective responsibility for operators of the supply chain, especially those responsible for metering, even in the absence of a specific assessment of faults or inefficiencies in their operations.

The entry into force was differentiated: from March 1, 2018 for the electricity sector, from January 1, 2019 for the gas sector and from January 1, 2020 for the water service.

In this regard, mention should be made of the recent conclusion of the investigative proceedings initiated by the AGCM against certain sales companies with the imposition of a total fine of 12.5 million euro. The Antitrust Authority has, in fact, ascertained the unjustified rejection of the two-year statute of prescription requests submitted by users, due to the late billing of electricity and gas consumption, in the absence of evidence that the delay was due to the responsibility of consumers.

Award of the safeguard service for the two-year period 2021-2022

The Law August 3, 2007, no. 125/07 established a safeguard service for all companies and public bodies without an electricity supplier and that have at least one medium or high voltage supply point or only low voltage points with more than 50 employees or an annual turnover of more than 10 million euro.

A2A Energia S.p.A. was selected, through a public tender procedure, for the period January 1, 2021 - December 31, 2022, as the electricity supplier for the safeguard service in batch 2 (Lombardy) and batch 4 (Marche, Tuscany and Sardinia), for about 650 MWh.

The prices charged are determined in accordance with the Authority’s rules and the calculation methods laid down by the MiSE and include wholesale electricity costs, dispatching and commercialization costs. In particular, A2A Energia S.p.A. applies to the energy supplied and the related grid losses:

- a consideration equal to the average monthly purchase prices on the GME market, differentiated by

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time slot and increased by the omega parameter ( $\Omega$ ) equal to 10.17 €/MWh for batch 2 and equal to 13.57 €/MWh for batch 4;

- the sum of the fees to cover the costs of the dispatching service (excluding the costs for the actual imbalance and the non-arbitrage fee);
- fees to cover the costs of transmission, distribution and metering and system charges and surcharges defined by ARERA;
- the CSAL fee to cover the charges for late payment, applied in accordance with article 29(11) of the TIV (Full text of the provisions of the Authority for the supply of electricity sales services of greater protection and safeguarding).

### Initiation of sanctioning and prescriptive proceedings for the invoicing of consumption

By means of Determination DSAI/65/2018/com, the Authority initiated sanctioning and prescriptive proceedings against A2A Energia S.p.A. aimed at ascertaining violations in relation to the invoicing of energy consumption, in relation to the alleged application of specific fees to end customers for the receipt of invoices in paper format. The company promptly submitted a proposal for commitments that was approved and made binding by Resolution 389/2019/S/com, thereby closing the related sanctions procedure.

Commitments were made in 2020, involving an outlay of approximately 2 million euro.

### Budget Law 2020 and credit management

Article 1, paragraph 291 of 2020 Budget Law states that “operators of public utility services and operators of telephony, television networks and electronic communications have the obligation to send users communications by means of which they contest, in a clear and detailed manner, any non-payment of bills and notify the suspension of supplies in case of non-settlement, with adequate notice, not less than forty days, by registered letter with return receipt”. This standard was transposed into the TIMG and the TIMOE with Resolution 219/2020/R/com, which had an impact on credit management performance by providing for the following:

- that the communication to the customer can only be made by registered letter with return receipt or certified e-mail (PEC);
- that the request for suspension of supply for MV/HV gas and electricity customers may be submitted to the distributor no earlier than 40 calendar days from the date of notification of the notice of default;
- that these time frames for LV electricity customers be reduced to 25 calendar days (the technical suspension would, however, take place not earlier than 40 calendar days from the date of notification).

These provisions lead to an increase in the financial exposure of operators and a deterioration in performance and indexes related to credit management.

### Closing of the dispute concerning Resolution ARG/gas 89/10 and settlement of amounts

Information about litigation is provided in the corresponding section that deals with the Generation and Trading Business Unit.

In relation to the requests submitted on May 31 by A2A Energia S.p.A., Lumenergia S.p.A., ACEL Energie S.p.A. and Enerxenia S.p.A. (now ACEL Energie), with reference to the amounts pertaining to the Market BU of 9.4 million euro, on December 31, CSEA paid 25% of the amount due to the individual companies, equal to approximately 4.7 million euro.

### Closing of the AGCM PS10728 investigation against A2A Energia S.p.A. for the application of online payment service costs by credit card

With measure dated September 20, 2017, the AGCM imposed a fine of 220,000 euro to A2A Energia S.p.A. for violation of the provisions of art. 62 of the Consumer Code on the application of surcharges for the use of the credit card for the payment of bills via the website. The company filed an appeal before the Lazio Regional Administrative Court stating that the surcharge requested was not due to the use of the payment instrument, but to the provision of a service that brings with it an objective added value (considering that since January 1, 2017, the company has discontinued the function of collection at the physical counters).

In addition, in order to protect the opposing needs for the protection of users and the creation of a competitive market, in which the economic and financial equilibrium of operators is safeguarded, article 19 of Directive 2011/83/EU (Consumer Rights Directive), implemented by the rule in article 62 of the



Consumer Code, provides that Member States prohibit professionals to impose on consumers, in relation to the use of certain payment instruments, fees that exceed those incurred by the professional for the use of such instruments thus legitimizing, in our opinion, the conduct of A2A Energia S.p.A..

The Council of State subsequently accepted the appeal filed by ACI (Automobile Club d'Italia) against the decision of the Lazio Regional Administrative Court, which had confirmed the validity of the measure by means of which AGCM had sanctioned the operator for violation of the aforementioned provision of the Consumer Code.

Electric mobility

The Ministry of Infrastructure and Transport is currently reviewing the PNIRE (National Infrastructure Plan for the Recharge of Electric Vehicles), which defines the guidelines for the development of recharging infrastructures (IdR) for electric vehicles in Italy.

Given the growing dissemination of electric vehicles (the PNIEC estimates 6 million by 2030) and the consequent increase in IdR, not only will the energy required for recharging increase, but these vehicles, through IdR, will be able to provide valuable services to the transmission grid and, in the medium to long term, to the distribution networks: the batteries, in fact, have the ability to quickly provide input/output services.

In order to facilitate the dissemination of electric vehicles in the context of the energy transition, with reference to the issues under its jurisdiction, the Authority activated two focus groups in 2020, with the aim of assessing and studying in detail, together with the various stakeholders, the possible changes to the regulations regarding recharging in the private and public sectors.

With reference to recharging in the private sector, Resolution 541/2020/R/eel provides for the possibility for domestic users (or other LV users) with contractually committed power between 2 kW and 4.5 kW, connected to a recharging system for electric vehicles, to withdraw up to 6 kW at night, on Sundays and on all public holidays, without additional fees related to the increase in power. This trial is granted for the period July 1, 2021 through December 31, 2023.

With regard to recharging in the public area, article 57, paragraph 12, of Law Decree 16 July 2020 ("Simplification Decree") provides that "the Authority shall define the tariffs for the supply of electricity for recharging vehicles, applicable in the private and public sectors, so as to ensure a cost no higher than that provided for resident domestic customers". Discussions are currently underway between the Authority and the Ministry of Economic Development to implement these regulations.

With reference to the integration between electric vehicles and the electricity grid, through the provision of services, MiSE issued the Ministerial Decree of January 30, 2020, by which it established criteria and methods to encourage the dissemination of the "vehicle to grid" technology, which provides for the V2G (exchange of power from/to the grid) and V1G (modulation of withdrawal from the grid) modes. The Ministerial Decree establishes the recognition of a lump-sum contribution to cover the costs of the devices and metering systems required to ensure interaction between electric vehicles and the grid and the possibility of including the IdR within the UVAM (Mixed Enabled Virtual Units, referred to in the Terna S.p.A. pilot project pursuant to Resolution 300/2017/R/eel for the opening of MSD to units that are not already enabled), delegating to the Authority the definition of the detailed regulation, for which preparatory activities are underway.

## 4.3 Waste Business Unit

### Regulatory measures adopted to deal with the COVID-19 health emergency

In order to address the impact that the COVID-19 health emergency has had on operators in the integrated waste cycle, the Authority has adopted the following measures:

- Resolution 59/2020/R/com has provided for the postponement to July 1, 2020 of the terms of application of the TITR related to the minimum information elements that must be guaranteed to users and the transmission of data by operators of operational activities to the operator of tariff management and relations with users;
- Resolution 75/2020/R/com suspended the payment terms of invoices/payment notices issued/to be issued for utilities located in the Municipalities in Annex 1 of Prime Ministerial Decree of March 1, 2020 with subsequent instalments of the amounts due and suspension of default;
- Resolution 102/2020/R/rif requested information from operators and Entities Territorially Competent (ETC) regarding any additional charges incurred for the service;
- Resolution 158/2020/R/rif introduced adjustment factors to discount the impact of the TARI for non-household users whose activities have been suspended as a result of the health emergency, as well as the provision of specific safeguards for households in a state of social and economic distress;
- Resolution 238/2020/R/rif updated the Waste Tariff Method (MTR) already approved for the period 2018-2021, introducing the possibility of covering already in 2020, through specific components, both the extraordinary costs related to the emergency and the discounts applied and provided for by Resolution 158/2020/R/rif, also in light of the information gathered following Resolution 102/2020/R/rif. Subsequently, Resolution 493/2020/R/rif extended the possibility of using these components in 2021 as well, in light of the continuing emergency.

### Waste Pricing Method for the period 2018-2021 (MTR)

Resolution 443/2019/R/rif approved the Tariff Method for the Integrated Waste Management Service (MTR), defining "the criteria for the recognition of efficient operating and investment costs for the period 2018-2021". The measure applies to the 2020 tariff revenues, compatibly with the time frame envisaged for the approval of the TARI by the Municipal Councils, the deadline of which has been extended to September 30, 2020 as a result of the Law converting Law Decree no. 34/2020 (Relaunch Decree).

MTR requires costs recognized to Operators to be determined starting from the actual costs recognized in the reference year (a-2) resulting from obligatory<sup>7</sup> accounting sources and those relating to integrated waste management, which includes the following activities:

- sweeping and street cleaning,
- collection and transport,
- treatment and recovery of urban waste,
- treatment and disposal of urban waste,
- tariff management and relations with users.

Other activities, such as deratization, snow clearance, mosquito pest control, garden cleaning, graffiti cleaning, etc., are considered external to the integrated urban waste cycle and therefore not subject to regulation.

The costs of treatment and disposal are defined on a transitional basis as is pending the setting of criteria for the determination of tariffs for access to facilities in 2020 with effect from January 1, 2021.

MTR is based on the principle of full cost recovery and establishes that tariff revenues can grow year on year through the application of the price cap mechanism within a certain maximum limit to the increase. The competent territorial entities (ETC) may submit to the ARERA a request for the exceeding of this limit, if they deem it necessary to ensure the achievement of the expected quality improvements or to support the integration process of the activities managed.

Below are the main features of the new method:

- rab-based with recognition of operating costs, amortization and return on invested capital (WACC at 6.3%, plus 1% for investments after December 31, 2017 related to the regulatory lag);
- it is permitted to include in the tariff forecast costs not yet finalized, without prejudice to subsequent verification mechanisms (COI component);

<sup>7</sup> The method is in continuity with Presidential Decree no. 158/99 of April 27, but provides for the use of obligatory accounting sources for the preparation of the PEF and not forecast costs.

- sharing of revenues from the sale of materials and energy in a range between 40%-70%, which allows Operators to retain a portion of the income, also depending on the quality of differentiation conferred. The percentage of sharing must be established by the entity territorially competent (ETC);
- adjustments over the years 2018 and 2019, calculated on the basis of the difference between the costs provided for in the 2018 and 2019 PEF and the actual costs in 2017 inflated, to be applied according to gradual mechanisms on the basis of management efficiency indicators taking into account the evaluations of the entity territorially competent (ETC).

The approval procedure provides for the transmission of the PEF by the Manager to the entity territorially competent (ETC) which - after checking the correctness, completeness and congruity of the data - sends it, together with the tariff fees, to ARERA for approval.

Resolution 158/2020/R/rif, in order to harmonize the application of the benefits for non-domestic users whose activity has been suspended due to the emergency, fixed the reductions in the variable part of the tariffs (separated according to the forced closure period) according to the standardized method pursuant to Presidential Decree 158/99. The same resolution also introduced, pending organic discipline, the possibility for ETC to provide benefits for the most vulnerable households in the form of a social bonus. It should be noted that these were the first direct interventions of ARERA on the users' side tariff articulation.

Resolution 238/2020/R/rif, taking into account the health emergency, has provided for the following additional provisions of MTR, applicable at the discretion of the ETC:

- new components for higher/lower COVID costs incurred/not incurred in 2020 within the tariff revenue growth limit;
- a supplementary clause to the service contracts committing the successor operator to pay the adjustments already quantified and approved by ETC to the outgoing operator;
- the possibility of adjustment of the components to cover the discounts for utilities provided for by Resolution 158/2020/R/rif;
- the possibility to request from CSEA an advance on 2020 of the reduced tariff revenues related to discounts applied to non-household users, to be returned by December 31, 2023.

On December 30, 2019, Amsa S.p.A. and A2A Ambiente S.p.A. appealed against Resolution 443/2019/R/rif to the Lombardy Regional Administrative Court individually and for various reasons. Following the hearing on the merits held on May 27, 2020, on June 30, the Milan Regional Administrative Court filed the sentences rejecting both appeals.

With Resolution 493/2020/R/ref, the Authority also updated the waste tariff method for the purposes of preparing the 2021 PEF, with reference to the monetary values already provided for in Resolution 443/2019/R/ref and extending to 2021 some of the powers introduced to deal with the epidemiological emergency by COVID-19 with Resolution 238/2020/R/ref.

In 2020, the Group companies drew up the "raw" 2020 PEF, by regulated area and by individual concession, adjusting and allocating the cost items according to the new methodology defined by ARERA. The final 2020 PEF, integrated by the municipalities with the costs for which they are responsible (i.e. billing activities and management of relations with users) were subsequently verified and validated by the ETC, which, in the absence of Ambit Government Entities, as in the case of the Lombardy Region, coincide with the municipal administration, which is required to guarantee suitable third-party requirements at the time of approval.

All the Group companies, which manage around 300 municipalities in Lombardy, have sent the relevant documentation to their respective ETC which, as far as is known, have approved the 2020 TARI and the underlying PEF by resolution of the Municipal Council. In most cases, in the presence of contracts awarded after competitive tendering procedures, ETC availed itself of the application of article 4.5 of the MTR, preserving any efficiencies deriving from competitive procedures and applying the value envisaged by the previous contracts - if lower than the maximum value of the MTR - subject to compliance with the economic-financial balance of operations.

During the second half of 2020, ARERA published the resolutions approving the 2020 PEF pursuant to the MTR proposed by the Municipality of Milan (managed by Amsa S.p.A.), the Municipality of Cremona (managed by Linea Gestioni S.p.A.) and the Municipality of Paderno Dugnano (managed by Amsa S.p.A. in a temporary grouping of enterprises with Econord S.r.l.), confirming on the whole, the maximum economic values of the tariff revenues proposed by the ETC in their respective municipal resolutions and without significant deviations from the amounts provided for in the previous contracts.

4 Evolution of the regulation and impacts on the Business Units of the A2A Group

Municipality	ARERA Resolution	Operator	Tariff revenues 2020
Paderno Dugnano	369/2020/R/rif	RTI consisting of Amsa S.p.A. and ECONORD S.r.l. Municipality of Paderno Dugnano	€ 5,963,484
Cremona	397/2020/R/rif	Linea Gestioni S.r.l. Municipality of Cremona	€ 10,333,852
Milan	476/2020/R/rif	Amsa S.p.A. Municipality of Milan	€ 298,617,329

Acsm Agam Ambiente S.r.l. filed an appeal for the annulment of the resolution of the Municipal Council of the Municipality of Varese no. 41 of September 24, 2020 concerning "Waste disposal tax (TARI). Approval of the economic-financial plan and determination of the unit tariff amounts for the year 2020 before the Lombardy Regional Administrative Court (TAR) Resolution no. 41 of September 24, 2020 approving the 2020 PEF" to the extent of the application of the Technical Extension Service Contract, requesting the integration of the higher amount due for the municipal sanitation service rendered in 2020 to the Municipality of Varese. The PEF approved by the Municipality in its capacity as ETC, in addition to numerous objections of merit and illegality, does not guarantee the economic and financial equilibrium of operations. The Regional Administrative Court, in the precautionary session of January 13, 2021, found the potential existence of pecuniary damages, the amount of which will be determined during the proceedings. The Regional Administrative Court held that the damage was not irreparable given the continuation of the contractual relation between the Municipality of Varese and Acsm Agam Ambiente S.r.l. and, therefore, could be integrated at any time as long as the relation lasted. We are waiting for a hearing on the merits to be scheduled, updating the contractual term of the extension currently in effect to April 30, 2021.

Integrated text on transparency towards users in the waste management service (TITR)

Resolution 444/2019/R/rif regulates transparency obligations towards users through the establishment of the "Integrated Text on transparency in the waste management service" (TITR) for the regulatory period April 1, 2020 - December 31, 2023 (due to the COVID emergency, the effective date has been postponed to July 1, 2020). The obligations apply to the Integrated Waste Service Operator (including municipalities in economy) and to the Operator that carries out tariff management and relations with users, where these activities are carried out by separate entities (including Municipalities that often own this activity).

The Operators shall activate all the necessary tools to make the documents and information accessible and understandable to users, through the publication of obligatory minimum information content to be made available (i.e. regarding the general aspects of operational service management, the Service Quality Charter, the method of calculating the TARI, the environmental performance of management, etc.) through websites, collection documents and communications to users for significant changes in the performance of activities, forms that can be freely downloaded to file a claim. In addition, the timing of information exchange is regulated in the case of various operators for individual waste management service activities.

In the course of 2021, ARERA plans to supplement the quality regulations with further provisions relating to the contractual (and partly technical) quality of the services provided, as well as with the preparation of standard outlines of the service contract between entrusting entities and service operators (see start of proceedings with Resolution 362/2020/R/rif). These measures should apply from 2022.

Incentive of biomethane used in the transport sector

Inter-ministerial Decree of March 2, 2018 reformed the incentive regulation of biomethane, orienting it exclusively to use in the transport sector, to help achieve the 10% target for renewable energy consumption in transport in 2020, as foreseen by Directive 2009/28/EC. In particular, the Ministerial Decree:

- modifies the minimum percentages of the obligation to release biofuels and advanced biofuels for fuel distributors (to be carried out directly or through Consumption Feed-in Certificates - CIC). In particular, an obligatory portion of at least 75% must be met through the introduction of advanced biomethane, i.e. biomethane obtained from waste and organic residues and agriculture (including FORSU);

- revises the separate incentive mechanisms for biomethane and advanced biomethane, produced by new plants to be commissioned by December 31, 2022, or by existing plants powered by biogas subject to conversion. The incentives apply up to a maximum amount of biomethane feed-in of 1.1 billion cubic meters/year.

Regarding biomethane that does not qualify as advanced, the producer directly sells gas to owners of fuel distribution plants, and in addition obtains the release of the CIC corresponding to the biomethane fed into the network, to the extent of 1 CIC for 10 GCal of fuel.

On the other hand, as far as advanced biomethane is concerned, as an alternative to direct sales (however possible) a dedicated withdrawal regime by the GSE is envisaged, up to the maximum incentive quantity threshold equal to the 75% obligation portion above. The GSE pays to the producer for 10 years a price equal to the weighted average price recorded on the spot market of natural gas (MP-GAS) of the GME in the month of sale, reduced by 5%, and in addition recognizes a CIC value equal to 375 euro/certificate, counting 1 certificate for 5 GCal of advanced biomethane (double counting with respect to the valorization of biomethane that does not qualify as advanced). In the case of advanced biomethane, for each plant it will not be possible to access the incentives for the part exceeding the maximum annual production of 150 thousand tons of biofuels.

The GME will have to provide and manage a market platform for the negotiation of the CIC recognized to biomethane and advanced biomethane that does not access withdrawal by the GSE.

On June 18, 2018, the GSE published the Application Procedures for the qualification of production plants and the incentive of biomethane through the attainment of the CIC. From July 2018, the Biomethane Portal is also available to send requests for plant qualification.

To complete the incentive framework, in December 2018, the contract schedules were published that the GSE will enter into with producers to regulate the incentive for the release for consumption of advanced biomethane in the natural gas network, with a specific destination in transport by recognizing the value of CICs.

A2A Ambiente S.p.A. is planning the construction of four plants for the production of biomethane by FORSU, using anaerobic fermentation processes, for a total annual production of 20 million cubic meters of gas. The biomethane produced will be used for transport purposes, partly also for the fleet of methane vehicles of the A2A Group. Critical aspects include the timing of Integrated Environmental Authorizations (IEAs), which can extend the time for plants to start operating near the deadline for obtaining incentives to 2022.

The A2A Group's interest in the biomethane chain is also confirmed by the signing, on June 20, 2018, of the Memorandum of Understanding with Coldiretti, Bonifiche Ferraresi, Snam and GSE to create the first Italian agricultural biomethane chain. Starting from the use of waste from crops and farms, the initiative aims to create new plants for the production and distribution of biomethane to fuel private cars, public transport fleets and agricultural machinery. A2A, in light of the path already taken in the circular economy, will pool its know-how as a reference utility for sustainable models of production, distribution and recycling.

In order to accelerate the transition process towards decarbonisation, the MiSE Ministerial Decree of December 30, 2020 introduced an increase in the mandatory quotas for the release for consumption of biofuels, advanced biofuels and advanced biofuels other than biomethane from 2021, increasing the space available for investments in the sector and offsetting the possible effects of the decrease in the use of fossil fuels for automotive purposes linked to the contingent situation. In particular, in 2021, the biofuel obligation will rise to 10% and that of advanced biofuels to 2% (2.5% in 2022 and 3% in 2023). The Ministerial Decree also introduced a minimum quota (0.5% in 2021 and 0.6% in 2022) of advanced biofuels other than biomethane and changed the method of calculating the traditional obligation, defined as the difference between the percentage of the overall obligation and the percentages of the three advanced obligations.

## End of Waste status

Council of State Sentence no. 1229/2018 had established that article 184-ter of Legislative Decree 152/2006 did not allow local administrations to authorize the End of Waste (EoW) status on a case-by-case basis, as said criteria are necessarily established at State or European level. Downstream of said sentence, a regulatory "stalemate" and a relevant uncertainty for investments in the waste recovery sector had been created, just when the new Directive 2018/851 of the EU Circular Economy Package de facto reinstated the "case by case".

In order to overcome this impasse, Law 128/2019 converting the “Salva Imprese” Law Decree in article 14 reformed the qualification of “End of Waste (EoW) status” in coherence with Directive 2018/851 (transposed in the national system with Legislative Decree 116/2020): according to the new regulation, the possibility of “case by case” in the ordinary procedure (pursuant to article 208 Consolidated Environmental Law (TUA) or Integrated Environmental Authorization (AIA)) by the competent administrations (Province/Region) is reinstated in compliance with certain technical and administrative requirements.

It should be noted, however, that in the context of these requirements at central level (MATTM), tasks have been assigned for verification and control, to be carried out with the support of ISPRA, with regard to compliance with the requirements of Directive 2018/851 and compliance with the authorizations issued. This provision, which is included to ensure central coordination of authorizations issued at local level, does not eliminate the risk to investments arising from the possible ex post revocation of the title. Of the many regulations awaited for the definition of EoW qualification in the various material supply chains, after the one on PAPs (personal absorbent products), the “EoW” Decrees for end-of-life tyres (ELTs) and for waste paper were published in 2020, while, among others, the one on construction and demolition waste scheduled for 2021 is awaited.

### EU Circular Economy Package

On June 14, 2018, the EU Circular Economy Package was published consisting of:

- 4 Waste Directives (Directive 2018/849 on end-of-life vehicles/waste batteries/WEEE, Directive 2018/850 on landfills, Directive 2018/851 on waste, Directive 2018/852 on packaging);
- 1 Regulation on the approval and market surveillance of vehicles.

The measures are aimed at promoting the application of the waste hierarchy (prevention, reuse, recycling, energy recovery, landfill) also through appropriate legislative and financial instruments, and in this context, some common objectives are set for the European Union:

- recycling of at least 55% of municipal waste by 2025. This portion is destined to rise to 60% by 2030 and to 65% by 2035;
- recycling of 65% of packaging waste by 2025 (70% by 2030) with material-specific targets.

The directives also introduced an obligation for all Member States to collect bio-waste separately or ensure recycling from the end of 2023.

The new rules also concern a binding target of reducing landfill disposal: Member States will have to ensure that recyclable waste is no longer transferred to landfills in 2030 and that as of 2035, the total portion of municipal waste destined for landfills does not exceed 10%.

Central to the application of the waste hierarchy is the strengthening of the principle of Extended Producer Responsibility (EPR), by means of which producers are called upon to participate in the organizational and financial management of the life cycle phase in which the product becomes waste.

The Directives were to be implemented by Member Countries by July 5, 2020.

### Legislative Decree September 3, 2020, no. 116, implementing Directive (EU) 2018/851 amending Directive 2008/98/EC on waste and implementing Directive (EU) 2018/852 amending Directive 1994/62/EC on packaging and packaging waste

In Italy, Legislative Decree 116/2020 implements two Directives of the EU Circular Economy Package, substantially amending part IV of Legislative Decree 152/2006 (TUA), in particular:

- Title I Waste management - Chapter I General provisions
- Title I Waste management - Chapter III Integrated waste management service
- Title II - Packaging management
- Title VI Penalty system and final provisions - Chapter I Penalties

The measure brought forward to December 31, 2021 the obligation to separately collect organic waste or ensure its recycling.

The amendments made effectively eliminate the category of “assimilated waste”, referring to the domestic perimeter both the flows in the municipal waste categories (specified in article 183, paragraph 1, letter b-ter of the TUA) and the “waste similar in nature and composition” based on the type (Annex L-quater of the TUA) and the activities (Annex L-quinquies of the TUA) that generate them. The achievement of the recovery obligations introduced by the Directive is calculated on the basis of these flows.

This intervention, which could contribute to overcoming the lack of homogeneity in the definition of urban flows among the various territorial areas, seems however to require further operational clarification regarding categories that cannot be univocally classified (e.g. waste from construction and



demolition, from canteens and offices located in industrial buildings) and a possible integration of the current perimeter of municipal privatisations.

Special waste is instead listed in article 184, paragraph 3, of the TUA and, in continuity with the past, also include waste from recovery and disposal activities. A number of definitions relevant to the activities carried out by the company have also changed, including “waste management”, “recovery of material”, “temporary storage prior to collection”, and the legal provisions relating to temporary storage, classification, and criteria for admissibility of waste in landfills have been amended.

A revision of the regulations on waste traceability is also planned, with the advent of the RENTRI. The new traceability system will be integrated into the National Electronic Register established following the conversion of Law Decree no. 135/2018 and will be managed by the National Register of Environmental Managers.

Furthermore, the extended producer responsibility (EPR) is carefully regulated, reinforcing the institution (one of the cardinal principles of the reform) and with a view to progressively opening up consortium systems to competition. Under the new provisions, the EPR systems will have to cover at least 80% of the total cost of managing the waste released for consumption, without prejudice to the definition, after consulting ARERA and therefore in line with the MTR, of the permissible “efficient cost” level.

Legislative Decree Finally, the Ministry of the Environment, with the technical support of ISPRA, is entrusted with the definition of a “National Waste Management Programme” that defines the criteria and strategic guidelines to be followed by the Regions and Autonomous Provinces in drawing up regional waste management plans. The programme should indicate the recovery and disposal requirements to be met. A measure that will reduce the power of local authorities, with the regions that for their part will be able to define agreements for “the identification of macro areas” that allow “the rationalization of plants in terms of localization, environment and economic, based on the principle of proximity”.

### **Legislative Decree September 3, 2020, no. 121, implementing Directive (EU) 2018/850, amending Directive 1999/31/EC on waste landfills**

Legislative Decree 121/2020 implements another of the Directives of the EU Circular Economy Package and introduces new organic regulations on the landfilling of waste, making amendments to Legislative Decree January 13, 2003, no. 36 on topics such as:

- landfill acceptance criteria for certain classes of waste;
- basic characterisation and acceptance procedures, including arrangements for on-site verification and waste sampling and analysis;
- construction and management criteria for landfill facilities.

The decree provides for a gradual reduction in the amount of waste sent to landfills (no more than 10% by weight of municipal waste by 2035) and introduces a ban on the landfilling of separately collected waste intended for recycling or preparation for reuse.

The landfilling of all waste suitable for recycling or other recovery, in particular municipal waste, will also be banned from 2030, except for waste for which landfilling produces the best environmental outcome.

### **Law no. 40 of June 5, 2020 - Conversion into law, with amendments, of Decree Law no. 23 of April 8, 2020, containing urgent measures regarding access to credit and tax obligations for companies, special powers in strategic sectors, as well as health and work interventions, and extension of administrative and procedural terms**

This law converts Decree Law no. 23 of April 8, 2020 Liquidity Decree Law. In addition to the measures already in force on April 8, others are added, including article 4 bis, which extends the list of business sectors considered to be at greater risk of Mafia infiltration in regarding works contracts, identified in accordance with article 1, paragraph 53, of Law no. 190/2012 (Provisions for the prevention and repression of corruption and illegality in public administration).

The new category of environmental services is added, which includes collection, transport (both domestic and cross-border, even if carried out on behalf of third parties), waste treatment and disposal, as well as remediation, reclamation and other services related to waste management.

### **Legislative Decree Government no. 47 of June 9, 2020 - Implementation of Directive (EU) 2018/410 of the European Parliament and of the Council of March 14, 2018 amending Directive 2003/87/EC to support more cost-effective emission reductions and promote low-carbon investments, and adapt national legislation to the provisions of Regulation (EU) 2017/2392 on air transport and Decision (EU) 2015/1814 of the European Parliament and of the Council of October 6, 2015 on the establishment and operation of a stabilizing market reserve**

The decree transposes the contents of Directive 2018/410/EU, Regulation (EU) 2017/2392 and Decision (EU) 2015/1814 and completely rewrites the current regulations on greenhouse gas emission allowance trading set out in Legislative Decree 30/2013, which is repealed (without prejudice to the provisions that continue to apply for the completion of the EU-ETS activities for the period 2013-2020).

### **Legislative Decree Government July 30, 2020, no. 102**

Supplementary and corrective provisions to Legislative Decree November 15, 2017, no. 183, implementing Directive (EU) 2015/2193 of the European Parliament and of the Council of November 25, 2015 on the limitation of emissions of certain pollutants into the atmosphere from medium combustion plants, as well as the reorganization of the regulatory framework of facilities that produce emissions into the atmosphere, pursuant to article 17 of the Law August 12, 2016, no. 170.

The Legislative Decree rewrites the rules of Part V of Legislative Decree 152/2006 on atmospheric emissions from civil combustion and heating systems, making numerous adjustments to the regulations, aimed at streamlining and simplifying the authorization procedures, making the control system more effective, revising the penalty system, correcting some typos and filling some regulatory gaps in the regulations.

Among the new features we can point out:

- the new official definition of “odorigenic emission”, which includes both ducted and diffuse emissions;
- the rules in the event of a non-substantial change to the facility;
- the obligation to always refer the authorized emission limit values to specific substances relevant to the production cycle (never to open or generic categories of substances);
- clarifications on the prohibition of a general emissions authorization in case of use of hazardous substances (only substances used in the production cycle from which the emissions originate are relevant);
- the restriction of the substances most dangerous to health to the greatest extent technically and operationally possible to be replaced as soon as technically and economically feasible in the production cycles from which the emissions originate;
- some sanctions have been changed from criminal to administrative sanctions.

### **Lombardy Regional Council Resolution no. XI/3398 of July 20, 2020**

Guidelines for the application of Best Available Techniques (BAT) conclusions for waste treatment, pursuant to Directive 2010/75/EU of the European Parliament and of the Council [notified under document number c (2018) 5070], in the context of Integrated Environmental Authorizations (AIA) review procedures.

With this Resolution, the Lombardy Region issued guidelines for the application of Best Available Techniques (BAT) conclusions for waste treatment as part of the review procedures for Integrated Environmental Authorizations (AIA). The issuing of these addresses is due to the opportunity to provide, to support the competent authorities and managers of AIA installations, standard evaluation elements common to all plants and specific according to the type of plant evaluated. In fact, these addresses have been created through working tables specifically composed by institutions and companies in the sector.

A number of waste acceptance and management protocols have also been defined; in particular (of interest to AMB plants located in the region):

- protocol for acceptance and management of industrial liquid waste flows in a chemical-physical and/or biological treatment plant;
- protocol for acceptance and management of waste in composting plants including integrated anaerobic digestion and composting plants.

Lombardy Regional Law of September 30, 2020, no. 20

Further measures to simplify and reduce administrative burdens for the socio-economic recovery of Lombardy.

Lombardy has issued a series of regulatory simplifications in order to encourage economic recovery following the COVID-19 emergency. The most significant amendments are noted:

- Article 2 - Measures for further simplification of administrative procedures of regional competence through the use of the decisional services conference. Amendments to article 13 of Regional Law 1/2012;
- Article 4 - Simplification of procedures relating to works and interventions subject to environmental impact assessment of non-state competence. Amendments to Regional Law 6/2010;
- Article 8 - Promotion of the circular economy through simplified waste recovery procedures;
- Article 12 - Reduction by up to half of the time needed to conclude proceedings at the request of a party initiated by 2021.

Lombardy Regional Council Resolution no. XI/3903 of November 23, 2020

Approval of the natural background values in groundwater for the substances arsenic, ammonium ion, iron and manganese and of the new threshold values for the substances arsenic and ammonium ion pursuant to article 2, paragraph 1, letter b) of Legislative Decree no. 30 of March 16, 2009 Implementation of Directive 2006/118/EC on the protection of groundwater against pollution and deterioration.

The legislation is of potential interest with regard to the remediation of contaminated sites. The Determination is issued pursuant to Legislative Decree 30/2009 on the protection of groundwater against pollution, according to which the regions may define threshold values different from those provided at national level, limited to substances of natural origin and on the basis of background values.

On this basis, Lombardy approved the natural background values for groundwater for arsenic, ammonium ion, iron and manganese and the new threshold values for arsenic and ammonium ion for the stations of the groundwater monitoring network managed by Arpa. These values are intended to determine the chemical status of groundwater bodies.

## 4.4 Networks Business Unit

### Regulatory measures adopted to deal with the COVID-19 health emergency

To cope with the impact that the COVID-19 health emergency has had on network operators and end customers, the Authority has adopted a series of specific measures, balancing the needs of the various stakeholders involved and taking into account the regulatory provisions in force at the time.

- deferral of regulatory obligations towards the Authority (including data collection and the conduct of conciliation procedures). Moreover, to take into account the restrictive provisions to protect public health, the Authority has extended the use of force majeure also in regulatory areas where it was not previously foreseen to justify the failure to comply with obligations/performance standards (Resolutions 59/2020/R/com and 94/2020/R/com);
- Resolution 190/2020 made the measure provided for in Relaunch Decree Law operational, i.e. discounts on the electricity bills of LV Other Uses (AU) with reference to consumption in May-June-July. The intervention concerned the reduction of the fixed components of the transport, distribution and metering tariffs and of the general charges for LV AU with committed power > 3 kW, for which the power quota was reduced to zero and only a fixed portion of increased amount (conventionally fixed at the former power quota x 3) is applied, without reducing in any way the actual service in terms of available power. The impact of the manoeuvre has been estimated at around 600 million euro to be borne by the State budget, which will pay this amount into the COVID-19 account set up at the CSEA (therefore without any socialization among “other” electricity users). The provision had only a financial impact for distributors, given that the restriction on revenues is always guaranteed: Resolution 311/2020/R/eel in fact subsequently gave instructions to the CSEA to compensate distributors for the lower revenues deriving from the provisions of Resolution 190/2020/R/eel and the amounts have already been settled;
- Resolution 190/2020/R/eel introduced some changes to the regulation related to 2G smart metering commissioning plans, suspending for 2020 some tariff mechanisms (i.e. premiums/penalties defined by the IQI matrix) and penalty mechanisms (i.e. performance, plan progress). These transitional changes will have a limited impact on Unareti S.p.A.’s PMS2;
- Resolution 395/2020/R/eel postponed the effective date to 2022:
  - a) of the new power factor limits i) in withdrawal of reactive energy, for end customers and distribution companies in high and extra-high voltage and for distribution companies in low and medium voltage; ii) in injection of reactive energy for each voltage level;
  - b) charges for excessive reactive energy withdrawals and injections.
- Resolution 432/2020/R/com defined extraordinary measures regarding output-based regulation of electricity and gas distribution services, providing for interventions related:
  - a) to the service continuity bonus-penalty mechanism (i.e. indicators of the number and duration of unannounced interruptions), with the recalculation of the 2020 trend level<sup>8</sup>;
  - b) to the timing of interventions scheduled in the Resilience Plans (i.e., postponement of one half-year for the completion of only those interventions scheduled in the 2019-21 Plan);
  - c) to the activities related to the experimental regulation on the modernization of obsolete electrical risers in buildings (i.e. postponement by one half-year - to June 30, 2023 - for the conclusion of the three-year experiment and the census of apartment buildings - to March 31, 2023);
  - d) to the applicability clauses of the force majeure clause for cases of failure to comply with commercial quality standards, provided adequate documentation can be used to prove the causal link between the measure with which the distributor was required to comply and the failure to comply with the quality standard defined in the current regulations;
- Resolution 501/2020/R/gas provided for the postponement of the deadlines for the obligations to commission meters in connection with the COVID emergency. In particular:
  - a) distribution companies with more than 200,000 end customers as of December 31, 2013: 85% in service by 2021;
  - b) distribution companies with between 100,000 and 200,000 end customers as of December 31, 2014: 85% in service by 2022.

<sup>8</sup> Specifically, it was set equal to that of 2019 for territorial areas with a target year of 2023 and to the two-year average starting level 2018-19 for territorial areas with a target year of 2025 or 2027 (for which the trend levels are to be redetermined for adherence to the special regulation).

Measures for the determination and updating of the WACC in the electricity and gas sectors for the second regulatory period (II PWACC)

Resolution 380/2020/R/com initiated the procedure for the adoption of measures concerning the methods and criteria for determining and updating the rate of return on invested capital (WACC) in the electricity and gas sectors for the second regulatory period (II PWACC), which will come into force from 01/01/2022. In particular, the Resolution provided:

- i. a duration of the II PWACC of not less than 4 years, with at least one update to allow for adjustments to the WACC in line with economic developments;
- ii. updating criteria in substantial continuity with those already adopted in the I PWACC for the purpose of formulating the real pre-tax WACC, with refinements referring to some specific aspects, such as the setting of the gearing level, the  $\beta$  parameter and the cost of debt;
- iii. criteria for estimating the  $\beta$  coefficient as detailed as possible in order to improve predictability and reduce the margin of discretion in setting this parameter;
- iv. confirmation in the WACC formula of the Country Risk Premium (CRP) component for the risk for countries with medium-low ratings;
- v. in-depth studies to avoid fragmentation in the timing of updates to regulations for electricity and gas infrastructure services and that of the WACC.

The following are the values of the WACC and related  $\beta^{LEVERED}$  and gearing parameters valid in both the 2016-2018 sub-period and the subsequent, currently in force, 2019-2021 sub-period.

I PWACC (sub-period 2016-2018)					I PWACC (sub-period 2019-2021)			
Sectors	Gearing	$\beta^{LEVERED}$ (%)	WACC	Application period	Gearing	$\beta^{LEVERED}$ (%)	WACC	Application period
Electricity distribution and metering	0.444	0.616	5.6%	2016-2018	0.500	0.686	5.9%	2019-2021
Electricity transmission	0.444	0.553	5.3%	2016-2018	0.500	0.616	5.6%	2019-2021
Gas transport	0.444	0.575	5.4%	2016-2018	0.500	0.641	5.7%	2020-2021
Gas distribution and metering	0.375	Gas distribution 0.630	6.1%	2016-2018	0.444	Gas distribution and metering 0.706	Gas distribution and metering 6.3%	2020-2021
		Gas metering 0.720	6.6%			Gas distribution 0.706 Gas metering 0.807	Gas distribution 6.3% Gas metering 6.8%	2019
Storage	0.444	0.800	6.5%	2016-2018	0.500	0.891	6.7%	2019-2021
Regasification	0.444	0.828	6.6%	2016-2018	0.500	0.922	6.8%	2019-2021

(\*) The  $\beta^{LEVERED}$  is updated based on the value of the following parameters:  $\beta^{ASSET}$  (update of the tariff regulatory period), gearing level D/E and fiscal rate tc special regulation).

Functional Unbundling and Brand Unbundling: recognition of costs incurred

By means of Resolution 296/2015/R/com (TIUF - Functional Unbundling Integrated Text), the Authority attributed to the Independent Operator the responsibility for the proper implementation of regulation in regard including the obligation of separation of the brand and communication policies with respect to the sale company and the use of information channels, physical and personal spaces separate from those of the sales activity to avoid the risk of confusion in the end customer.

In consideration of these new regulations and in accordance with the provisions of article 8, paragraph 1 of the TIUF that allows the shared management by the vertically integrated company of infrastructure activities carried out under monopoly, Unareti S.p.A. was established, operative since April 1, 2016, which now manages the distribution and metering of electricity and gas.

It was only with Resolution 562/2020/R/com and following consultations and in-depth analyses of the data collections prepared by the operators that the Authority acknowledged the costs incurred in order

to comply with the provisions in question by paying the A2A Group’s distributors an amount of 1.1 million euro (most of which relating to Unareti S.p.A.).

2019 final and 2020 provisional reference tariffs for the distribution and metering of natural gas

Resolution 127/2020/R/gas approved the 2020 provisional reference tariffs for natural gas distribution and metering activities (based on the 2019 pre-final investments and underlying WACC of 6.3%), while Resolution 107/2020/R/gas approved the 2019 final reference tariffs (based on 2018 final investments).

RAB GAS value underlying 2020 provisional reference tariffs millions of euro	Unareti	ASVT	LD Reti	ACSM-AGAM Group (*)	Total
Cap. Centralized	50	1	11	13	75
RAB Distribution	815	11	163	178	1,167
RAB Metering	149	1	27	25	202
Total	1,014	13	201	216	1,444

(\*) Includes the companies: LeReti S.p.A., Serenissima Gas S.p.A., Reti Valtellina Valchiavenna S.r.l..

The DCVER component to cover the operating costs related to metrological testing has been zeroed, as these costs will be recognized on the basis of a methodology that will consider the costs actually incurred by operators and reported through specific data collection.

Similarly, operating and capital costs not already covered by tariffs relating to remote management/ remote metering and concentrators of electronic gas meters will continue to be recognized on an ex post basis until 2022, within a decreasing annual limit (2020: 4.24 euro/PdRsmart; 2021: 3.74 euro/PdRsmart; 2022: 3.24 euro/PdRsmart)<sup>9</sup> and through a mechanism based on individual requests to be submitted to ARERA in specific time windows. After the recognition of the costs incurred in the years 2011-2016 by Resolution 537/2019/R/gas, Resolution 568/2020/R/gas also recognized the above amounts for the two-year period 2017-2018, settling a total amount of 4.5 million euro to the A2A Group distributors concerned. With respect to 2019, data collection was carried out in January 2021, and the related amounts will be determined during the year, while costs for the years 2020-2022 will be subject to data collections included in the broader tariff update process, normally carried out in the final months of the year.

Finally, Resolution 596/2020/R/gas determined the mandatory tariffs for end customers of gas distribution and metering services for 2021, valuing for the first time the VR and ST tariff components linked to the competitive procedures for the assignment of the natural gas distribution service, as well as the CE component applicable only in the new “Sardinia” tariff macro-area and intended to align the costs of the service for users there with those on the mainland.

Tariff regulation for the natural gas distribution and metering service 2020-2025

Resolution 570/2019/R/gas approved the RTDG 2020-2025, defining the regulatory framework for gas distribution and metering service tariffs for the years 2020-2025 (5th regulatory period). Although the characteristics of the current regulation are confirmed, the main amendments can be summarized as follows:

- operating costs recognized: update of operating costs recognized from 2020 using the average (50:50) between the actual costs recorded in 2018 and the costs recognized in the same year as the basis of calculation. The update was carried out using the price-cap method taking into account, in addition to the inflation recorded during the period, also an X-Factor differentiated by activity (distribution, marketing and metering) and, limited to distribution, operator size (large, medium, small). Compared with the previous regulatory period, there has been a considerable reduction in the operating costs recognized for each operator cluster/territory density served and an increase in the X-Factors relating to distribution and marketing, while the current level is confirmed for metering (in the case of Unareti S.p.A. it went from 32.79 euro/PDR recognized in 2019 to 26.55 euro/PDR in 2020);
- capital costs: revision of the beta parameter for the calculation of WACC in metering activity to 6.3%, i.e. the same level as for distribution activity. For calculating the invested capital subject to

9 For the years 2017, 2018 and 2019, the annual limit was 5.74 euro/PdRsmart, 5.24 euro/PdRsmart and 4.74 euro/PdRsmart, respectively.



remuneration, as well as the related amortization, a specific mechanism is defined for the gradual release, over a long period of time that goes beyond the individual regulatory period, of the amount of contributions existing at December 31, 2011, currently not considered in defining tariffs.

Further interventions of interest have included:

- adoption of recognition mechanisms for investments in turbo-expanders based on standard costs that reflect the avoided cost of installing traditional expanders. In addition, the compatibility of the electricity production activity of gas distributors with the regulatory requirements for functional unbundling will be examined in greater detail;
- the recognition of costs related to switch metering: the value of single metering that exceeds the level of 2018 is equal to 5 euro/switch metering, in line with the previous regulation;
- confirmation of the current standard costs valid for the purposes of determining investments in gas smart meters and modification of the weights for weighting these costs with those actually incurred by operators (from the current 40 (standard): 60 (actual) at 30:70);
- confirmation of the final recognition, within the limits of a decreasing cap over time, of the operating costs not already covered by the tariffs for the remote metering/remote management and concentrators of gas smart meters and the provision, pending the definition of the amounts to be paid to individual operators, of a system of advances calibrated on the basis of the latest data available;
- recognition at the end of the list of costs related to the metrological verifications provided for by the regulations in force for the three-year period 2020-2022. Pending the definition of the precise amounts to be paid to individual operators, a system of payments on account is established;
- the valuation of the amounts to cover the lack of depreciation relating to traditional meters of class up to G6 decommissioned for replacement with electronic meters, generated by a misalignment between the pro-tempore tariff useful life attributed to this class of asset and the useful life used to calculate the residual depreciation of these meters which, based on current regulations, continue to be recognized in the tariff even after their decommissioning for replacement. Proposals for operating procedures to value these amounts are contained in DCO 545/2020/R/gas.

The same Resolution approving the new RTDG also initiated two proceedings:

- introduction of incentive regulations for capital costs of the distribution service, based on standard cost recognition logics, starting from the investments made in 2022;
- reform of the tariff system (possibly with effect from 2023), considering, among other things, the possibility of establishing a portion of the constraint according to the volumes distributed, as well as a possible revision of the tariff areas, with a view to reducing the socialization areas to the limits of the ATEM concession.

Unareti S.p.A. challenged Resolution 570/2019/R/gas highlighting the lack of investigation, due to the scarcity of information made available during the consultation phase, and the significant impact, unforeseen and not adequately justified, on the company's economic-financial balance. A decision is currently pending regarding the hearing date.

## Quality regulation for the natural gas distribution and metering service 2020-2025

Resolution 569/2019/R/gas approved the RQDG 2020-2025, defining the regulatory framework regarding technical and commercial quality, of the gas distribution and metering service for the years 2020-2025 (5th regulatory period). Although the characteristics of the current regulation are confirmed, the main amendments concern the technical quality and can be summarized as follows:

- introduction of two new safety indicators relating to the average residual life of the managed network are introduced, as well as a new service obligation relating to the elimination of leaks detected within the time limits set by the technical standards in force. In addition, specific obligations are provided with regard to: the monitoring of the operating pressure of the low pressure network, the effective cathodic protection of the low pressure steel network and the replacement or rehabilitation of the network in materials not permitted by technical standards. It is planned to update some parameters of the existing penalty-premium mechanisms and to provide incentives for the number of measures for the degree of gas odorization and the reduction of dispersions. Finally, the gradual decrease in any premiums in the event of a gas accident is changed.

As far as commercial quality is concerned, the only significant difference from the regulation in force concerns the way in which the supply pressure check is carried out at the request of the user.

Following the start of the new regulatory period, by way of Resolution 463/2020/R/gas, the Authority determined the new starting levels and trends for the incentive regulation of safety recoveries of the natural gas distribution service for the years 2020-2025.

Finally, also with reference to the incentive regulation, it should be noted that Resolution 567/2020/R/gas determined the bonuses and penalties relating to 2017, recognizing to the relevant companies of the A2A Group a total amount of 3.2 million euro.

Tariff regulation for the natural gas transport and metering service 2020-2023

Resolution 114/2019/R/gas approved the rules applicable to natural gas transport tariffs for the period 2020-2023 (5th regulatory period - RTTG). The main additions are summarized below:

- definition of eligible revenues: the method adopted, similar to the current one, provides for the calculation of eligible revenues as the sum of the (i) return on net invested capital (WACC: 5.7%, as updated by Resolution 639/2018/R/com), (ii) depreciation rate (useful life substantially unchanged) and (iii) operating costs (calculated from actual costs ex unbundling 2017). The provisions of Annex A to Resolution 468/2018/R/gas are valid for admission to the tariff recognition of investments relating to specific interventions on the transport network. Incentive mechanisms for infrastructure development are provided for (initially input-based and then moving to an output-based logic during the regulatory period);
- recognition of costs relating to network losses, self-consumption and gas not accounted for: the current method of recognition in kind of these items is exceeded, moving to monetary recognition based on the weighted average price of forward products with delivery to the PSV in the reference tariff year;
- equalization mechanisms: in addition to the pre-existing mechanisms relating to the equalization of revenues relating to the regional network (between TSO and CSEA) and the variable unit fee (between TSO), a new monthly flow from transport companies other than Snam Rete Gas S.p.A. is introduced for the latter for the equalization of national network revenues relating to the revenues associated with the exit fees, aimed at transferring the share of revenues pertaining to the national network from the transport companies that collect the revenues deriving from the CPu fee to the companies that carry out the transport activity on the national network.

The new RTTG innovated the calculation of the tariff from the matrix method to the CWD - Capacity Weighted Distance method, intervening on the tariff structure (the CRr component disappears, since the total costs of the regional network are completely allocated to the CPu capacity component applied to the exit from the network, the CVfc volumetric component is introduced) and the application methods (application of the CPu to the exit points from the network, CV applied to the volumes withdrawn, etc.). The new RTTG has also provided for a new way of managing the Corrective Factors (FC) of the eligible revenues, i.e. elements aimed at ensuring, annually and for each operator, equality between the eligible revenues and the revenues actually obtained from the application of the tariffs fixed by the Authority. Until 2019, these amounts were accrued in 4 annual instalments where the amount relating to a single year was then subtracted directly from the revenues allowed for the same year. Starting from the fifth regulatory period, the accrual is eliminated and the management of these differences is by the CSEA in the year following the reference year where the revenues allowed are not netted by this amount.

This implies, therefore, (i) the need to close items still open in 2019 (i.e. the entire amount of FC for 2018 and the remaining instalments for the period 2014-2017) and (ii) the increase in total eligible revenues in 2020 compared to 2019. However, in view of this increase, it should be remembered that the management of FC is carried out on an annual basis directly with the CSEA. This resulted in a cash outflow for Retragas S.p.A. in 2019 of approximately 3 million euro, pertaining to 2020.

Following the definition of the new regulatory framework, Resolution 180/2020/R/gas approved the revenues recognised and the tariff fees for the activity of natural gas transport and metering for 2021, while those for 2020 had been approved by Resolution 201/2019/R/gas.

RAB value Retragas S.p.A. underlying 2020 final tariffs and 2021 provisional tariffs millions of euro	Final tariffs 2020	Provisional tariffs 2021
RAB Transport	43	45
RAB Transport Metering	2	2
Total	45	47

Finally, it should be noted that the Authority, by way of Resolution 539/2020/R/gas, among other things, expressed its assessment of the ten-year development plans for the natural gas transport network prepared by the operators for 2019 and 2020. With reference to the plan prepared by Retragas S.r.l.

concerning the interventions for new methanization in the Autonomous Province of Trento, the Authority, in light of a number of critical points, considered it appropriate to continue evaluating it in future plans.

## Quality regulation for the natural gas transport and metering service 2020-2023

Resolution 554/2019/R/gas defined the regulatory framework for the technical and commercial quality of the gas transport service for the years 2020-2023 (5th regulatory period). Although the characteristics of the current regulation are confirmed, the main amendments concern the strengthening of safety provisions and the simplification of certain aspects of service continuity and commercial quality regulation: Safety:

- introduction of new indicators, related calculation methods and supporting documentation for surveillance and inspection, even invasive, of the managed network;
- introduction of new and additional disclosure obligations in favour of stakeholders with regard to odorization, with the provision, in particular, of the drafting and publication on its website of a detailed half-yearly Odorization Plan;
- introduction of the obligation to have appropriate operating procedures in place, in compliance with current technical standards, relating to the main and most critical TSO operating processes (including emergency response/service emergencies/gas accidents; gas odorization where applicable; surveillance and inspection, invasive and non-invasive, of the network, etc.).

Continuity:

- overall revision of the provisions regarding the alternative transport services by tank wagon, with the allocation of the relevant responsibilities to the TSO, as well as the obligations of loyal and factual cooperation on the part of transport users, who must, inter alia, periodically declare explicitly that they do not wish to use this service;
- gradual reduction (in 2 years) of the capacity threshold allocated to PDR above which there is an obligation to monitor the value of the minimum pressure on an hourly basis, with specific communication and transparency obligations;
- differentiation of automatic indemnities by type of PDR (end customer directly connected to the transport network or city gate) and definition of specific rules for the payment of indemnities related to city gates (intended for the "gas service quality account"). The indemnity is now set at the exit fee from the transport network.

Commercial Quality:

- introduction of new specific standards and related calculation methods. In particular: (i) standard relating to the reasoned response time to requests for revision of the transported gas accounting relating to adjustment sessions; (ii) standard relating to the duration of the malfunctioning of an IT application; (iii) standard relating to the reasoned response time to written complaints. In addition, the level applicable to the standard "reasoned response time to written requests for the metering report" is reduced from 15 to 10 working days. Finally, some pre-existing standards are unified in the standard "reasoned response time to written requests".

Metering:

- Resolution 522/2019/R/gas initiated a procedure aimed at reorganizing natural gas metering activities at the entry and exit points of the transport network, which is still in progress.

## Assignment and performance of the natural gas distribution service

Following the reform of the means of allocating the natural gas distribution service, 177 "Minimum Territorial Ambits -ATEM" were defined (Ministerial Decree January 19, 2011 and Ministerial Decree October 18, 2011), for which tenders will be called for the allocation of the service in accordance with the requirements of the tender regulation (Ministerial Decree November 12, 2011 no. 226, as subsequently integrated and amended). Regulations have also been adopted to protect the jobs of the employees of the operators involved in the restructuring of the sector (Ministerial Decree April 21, 2011).

In recent years, several provisions have intervened amending Legislative Decree no. 164/2000 and Ministerial Decree 226/2011 with particular reference to the procedures for determining the reimbursement to be paid to the outgoing manager (VIR) and calling tenders.

Ministerial Decree 22 May, 2014 approved the Guidelines relating to the criteria and application methods for the purposes of determining the VIR, while Ministerial Decree 20 May, 2015, no. 106, amended Ministerial Decree 226/2011 so as to implement the amendments on the VIR calculation (especially as regards the treatment of contributions), the application of the guidelines, the maximum percentage of the fee, the recognition of the underlying costs of the energy efficiency projects to be realized in the context and offered during tenders.

Law Decree 210/2015 (Milleproroghe 2016), granted a further extension of deadlines for the publication of tender notices by Contracting Stations and the penalizations previously envisaged of the defaulting ones were eliminated.

Ministerial Decree of January 11, 2017 also only partially resolved the uncertainty about the coverage, in terms of tariff contribution, of the securities generated by the energy efficiency projects (WC) proposed in the tender. In particular, the Ministerial Decree provided that any WC issued with respect to these projects and cancelled by GSE in the reference year will also reduce, by the same amount, the overall savings obligations of the following year. However, there are some remaining uncertainties, including the territorial constraint of the interventions offered as part of the tender.

Lastly, it is noted that the standard on gas distribution tenders introduced in the correction of the Procurement Code, published in the Official Journal on 5 May, 2017, confirms the validity of the activity carried out so far by Contracting Stations in the production of tender documents and the maximum duration of 12 years of assignments also remains unchanged.

As part of the tasks assigned to the regulator by the legislator, Resolution 514/2012/R/gas provided the draft standard service contract for the regulation of relations between local authorities that grant concessions and operators of natural gas distribution services, a contract that was later approved by the Ministry of Economic Development by Ministerial Decree of February 5, 2013. Subsequently, by means of Resolution 571/2014/R/gas, the Authority proposed an amendment - regarding the recognition of amortization quotas in favour of the granting bodies - to this model of standard service contract, although this amendment was not implemented by the Ministry of Economic Development.

Finally, following the amendments introduced by the Competition Law 2017 regarding the simplification of the procedure for the evaluation of reimbursement values and calls for tenders, the Authority adopted Resolution 905/2017/R/gas with which it rationalized the regulation relating to its tasks by articulating the provisions on the subject in 2 integrated texts containing the rules, respectively, for the evaluation of the reimbursement and for the evaluation of the call for tenders.

It is noted that A2A Reti Gas S.p.A. (now Unareti S.p.A.) had challenged the Guidelines and Ministerial Decree May 20, 2015, no. 106 (TAR Lazio) and all the deeds of the Contracting Authority of the ATEM Milano 1 related to the definition of the VIR (TAR Lombardy). The Lazio Regional Administrative Court, with Sentence no. 10286 of October 14, 2016, rejected this appeal, considering the grounds unfounded. Unareti S.p.A. appealed to the Council of State which, with Sentence no. 05736/2017 of December 5, 2017, referred the case to the European Court of Justice requesting to verify consistency between European and national legislation regarding deduction - retroactive - of public and private contributions from the reimbursement value. The European Court of Justice, with Sentence of March 21, 2019, declared its compatibility and the matter, therefore, returned to the Council of State which, with Sentence 6315 published on September 23, 2019, rejected the appeal brought by the Company.

With regard to the Lombardy Regional Administrative Court, also in light of the ruling by the Council of State, the joint request to postpone the hearing for the discussion of the pending appeal was upheld by an order dated December 23, 2017. The hearing, first scheduled for December 20, 2018, has been postponed several times, also in order to take into account the outcome of the judgment regarding the award of the tender itself, and is currently set for May 5, 2021.

### **Area tenders for the natural gas distribution service: ATEM Milan 1**

At the end of 2015, the first tenders were published for the concession of the natural gas distribution service on the basis of ATEM. Among these, also the one of Milan 1 - City and Plant of Milan where Unareti S.p.A. was operator with a contractual amount equal to 1,369 million euro for 12 years. The tender notice outlines the disagreement between the Contracting Authority and Unareti S.p.A. (formerly A2A Reti Gas S.p.A.) regarding the amount of the VIR of the plants because of the treatment of contributions regarding which the aforementioned dispute is pending.

After several extensions, the deadline for receipt of tenders was set at January 16, 2017. In compliance with this deadline, Unareti S.p.A. and 2i Reti Gas S.p.A., which managed a single location of ATEM (Cinisello Balsamo, equal to about 4% of the PDR tendered), filed their offers. On September 5, 2018, the Municipality of Milan awarded the tender to Unareti S.p.A. with a total score of 98.12 points out of 100.

2i Reti Gas S.p.A. filed an appeal with the Lombardy Regional Administrative Court and against this Unareti S.p.A. filed an incidental appeal, highlighting the illegitimacy of the admission of 2i Rete Gas S.p.A. to the proceedings. With Sentence 2598, published on December 5, 2019, the Lombardy Regional

Administrative Tribunal upheld both appeals, excluding the competitors; following the appeal of this sentence by both, the Council of State, with Sentence 05370/2020, published on September 7, 2020, sanctioned the legitimacy of the award by Unareti S.p.A., deeming the complaints of the other party to be unfounded.

### **Application for restitution of part of the administrative sanction imposed on AEM Gas S.p.A. for violation of the provisions on technical quality and safety of the natural gas distribution service following the 2006 Via Lomellina in Milan event**

In June 2019, Unareti S.p.A. submitted a request to MiSE for the repayment of part of the sanction of 1,493,000 euro, paid on July 25, 2008 by the company (formerly A2A Reti Gas S.p.A.), formerly AEM Distribuzione Gas e Calore S.p.A.) to the Revenue Agency, pursuant to Resolution VIS no. 46/08, for violation of certain provisions concerning the technical quality and safety of the natural gas distribution service following the event in Via Lomellina in Milan in 2006.

The sanction was subsequently subject to redetermination, in the amount of 734,000 euro, by order of the Authority no. 569/2013/S/gas, in compliance with Council of State Sentence no. 03007/2011, of the annulment of the previous resolution - in the part relating to the determination of the amount. The reimbursement of 759,000 euro, equal to the difference between the 2008 penalty and the penalty redetermined in 2013, was paid last August. We are waiting for the payment of the legal interest accrued from the date of payment of the penalty initially determined until the date of reimbursement of the amount unduly paid (about 110,000 euro).

### **Infra-period updating of tariff regulation of electricity transmission, distribution and metering services 2020-2023**

Resolution 568/2019/R/eel approves the tariff regulation for electricity transmission, distribution and metering services for the 2020-2023 (NPR2) regulatory half-period and the related TIT, TIME and TIC<sup>10</sup> integrated texts. The measure, substantially in line with the criteria adopted in the first half-period 2016-2019 (NPR1), defines in particular:

- the initial levels, referring to 2020, of the cost recognized to cover operating costs, a profit sharing with symmetric distribution (50:50) between distribution companies and end users of any increased efficiencies achieved in the previous NPR1 and the productivity recovery rate (X-Factor) for their annual update. The new X-Factor applicable to electricity distribution activities is 1.3% (1.9% in the previous half-period), while the X-Factor applicable to metering activities is 0.7% (1% in the previous half-period);
- a mechanism for distributing net revenues from the joint use of electricity infrastructures for purposes other than those subject to tariff recognition (i.e., use by TELCO), which may be activated only if the amount is greater than 0.5% of the revenue allowed to cover the costs of the distribution service;
- incentives for aggregations between distribution companies, giving priority to smaller ones, with the possibility of using the contractual instrument of the "Network Contract";
- a mechanism for the recovery of bad debts relating to network tariffs not yet covered, access to which by distributors is subject to the fulfilment of specific conditions;
- a revision of the tariff regulation for withdrawals and injections of reactive energy, based on a gradual application (between 2021 and 2022).

Finally, the Authority deemed it appropriate to delegate to subsequent documents for consultation the introduction of the new regulatory approach, defined "Regulation by expenditure and service objectives", based on total cost efficiency, medium-term planning and enhancement of the level of service rendered, through output-based incentives (TOTEX method).

### **2019 final and 2020 provisional reference tariffs for the distribution and metering of electricity**

Resolution 162/2020/R/eel approved the 2020 provisional reference tariffs for the electricity distribution and metering service (based on the 2019 pre-balance investments) for companies that serve at least 25,000 PODs. Resolutions 151 and 144/2020/R/eel approved the final 2019 reference tariffs (based on final 2018 investments), respectively, for operators serving at least 25,000 PODs and up to 100,000 PODs and over 100,000 PODs.

For both years, the underlying WACC is 5.9% (as updated by Resolution 639/2018/R/com with effect from 2019).

<sup>10</sup> TIT (Provisions for transmission and distribution services), TIME (Provisions for the metering service), TIC (Economic Conditions for the connection service).

RAB value Retragas S.p.A. underlying 2020 provisional tariffs millions of euro	Unareti	LD Reti	Reti Valtellina Valchiavenna	Total
RAB Distribution	556	35	12.4	604
RAB Metering	60	3	2.3	65
Total	616	38	15	669

With regard to operators up to 25,000 POD, Resolution 237/2018/R/eel defined the criteria for the recognition of operating and capital costs in the tariff. In particular, the tariffs for the distribution activity will be calculated using a parametric method whereby the recognized opex and capex will be fixed taking into account certain relevant quantities such as distributed energy and user density (opex) and, together with the previous ones, the age of the networks (capex), while those for the metering activity will take into account a conventional profile of installation of the LV electronic meters and their average cost). The transition to this method will take place gradually over the period 2018-2023. At the moment, decisions approving the tariffs are awaited. The same Resolution provided that for distributors serving at least 25,000 PODs and up to 100,000 PODs, the individual regime applies.

Resolutions 564/2020/R/eel and 566/2020/R/eel set the obligation tariffs for the year 2021 for electricity distribution and metering services applicable to non-domestic and domestic customers respectively.

Infra-period updating of quality regulation of electricity distribution and metering services (i.e. TIQE): 2020-2023

Resolution 566/2019/R/eel updated the TIQE for the regulatory half-period 2020-2023, introducing specific measures aimed at reducing service continuity gaps between the various areas of the country, through ad hoc regulatory instruments. In particular, a special voluntary regulation has been defined for the areas with the highest number of interruptions:

- a) the payment of a premium at the end of the period (2023), if the target level set by ARERA is reached and a penalty (equal to 1/3 of the premium) if it is not reached;
- b) the possibility of requesting to postpone the target year from 2023 to 2025, upon presentation by the distributor of a specific Technical Report proving the reasons in consideration of the presence of structural criticalities; if the request is accepted, the trends would be recalculated at the same time.

At the end of April 2020, Unareti S.p.A. submitted an application to ARERA to participate in the special regulation for the Milan area and with Resolution 431/2020/R/eel, the Authority gave its approval for Unareti S.p.A. to participate in the special regulation for the Milan area, with the recalculation of the trends.

Moreover, with particular reference to the number and duration of interruptions, the Authority has also ordered the start of a regulation for experiments (regulatory sandbox), mutually exclusive with the special regulation described above, in areas identified by distributors. In detail, without prejudice to the achievement of the target level set for the year 2023, the distributor has the opportunity to propose an improvement path different from that defined by the current ordinary regulation, presenting innovative solutions from a technological point of view for the improvement of service quality. Also in this case it is foreseen to recalculate the trends, deactivated in the years of experimentation.

For the purpose of adhering to the mechanism, precise time windows have been established: by June 3, 2020<sup>11</sup> for application from 2020 and by February 28, 2021 for application from 2021. In the event of failure to achieve the improvement commitment presented by the distributor, no premium will be paid while the penalties that would have been achieved in the same period, in the absence of the temporary derogation granted to ordinary regulation, will be paid.

Finally, also with reference to output-based regulation, Resolution 462/2020/R/gas determined the premiums and penalties relating to 2019, recognizing to the A2A Group companies concerned a net penalty of a total of -3.2 million euro, a result influenced by the gross penalty of 3.7 million euro imposed on Unareti S.p.A. which was not fully offset by the premiums attributed to the same company and to the A2A Group companies concerned, amounting in total to 0.5 million euro.

11 Previous deadline of April 30, 2020 extended by Determination 5/2020, pursuant to Resolution 59/2020/R/com in light of the emergency from COVID-19.



## Resilience Plans for the electrical network

TIQE also contains initiatives aimed at increasing the resilience of the electricity system: specifically, Title 10 was the subject of significant additions aimed at defining the scope of application of resilience obligations, the content and timing of implementation of the action plan and appropriate incentive mechanisms.

Determination 2/2017 DIEU approved the “Guidelines for the submission of Work Plans for increasing the resilience of the electricity system - part one”, which illustrate the methodology for identifying priority interventions to address the issue of grid resilience and for estimating the costs and related benefits associated with such interventions. The MiSE also intervened on the matter with its own guidance document on prevention and management of adverse weather events that required electricity distribution service concessionaires to integrate development plans with a special section that is very analytical and subject to monitoring, dedicated to interventions to increase the resilience and for robustness of the network.

Following this, Resolution 31/2018/R/eel: i) introduces the obligation for all the main distribution companies<sup>12</sup> to draw up, and periodically communicate to the Authority, resilience plans for at least three years and coordinated with Terna S.p.A. or with the reference distributor; ii) provides for a single reputational incentive mechanism consisting of the obligation to publish the resilience plan on the website by June 30 of each year.

In addition, Resolution 668/2018/R/eel defined a bonus/penalty type economic incentive for resilience enhancement interventions based on:

- a) specific criteria aimed at identifying which interventions can be considered eligible for the incentive mechanism;
- b) a method of calculating bonuses and penalties respectively at a percentage share of the net benefit of the individual intervention carried out within the established time frame and of the net present value of the actual costs based on the extent of the delay.

Subsequent Resolution 534/2019/R/eel defined the measures to increase the resilience of E-Distribuzione S.p.A., Areti S.p.A., Unareti S.p.A., Ireti S.p.A. and SET Distribuzione S.p.A. in relation to the 2019-2021 Plans eligible for premium and/or penalty payments. In addition to the ceiling already in force for the total net premiums of each distributor, ARERA has confirmed the definition of the maximum limit to the premium of a single intervention, making it equal to the cost of the same (in order to avoid the recognition of over-remuneration higher than the cost of the intervention already covered in RAB).

At the moment, the obligations to develop the resilience plans refer only to the aspect of the validity of distribution networks to mechanical stress (i.e. to specific critical risk factors such as floods, fall of out-of-band trees, ice sleeves and heat waves), while for that relating to the timeliness of the restoration of the supply, please refer to subsequent measures.

By June 30, 2020, Unareti S.p.A. sent ARERA the 2020 Development Plan within which the section dedicated to the 2020-2022 Resilience Plan has been prepared, which contains investments for over 17 million euro. By way of Resolution 500/2020/R/eel, the set of interventions included for the first time in the 2020-2022 Plans eligible for premiums and/or penalties were subsequently disclosed, regarding the companies E-Distribuzione S.p.A., SET Distribuzione S.p.A., Unareti S.p.A., Areti S.p.A., Ireti S.p.A., Servizi a Rete S.r.l. and Azienda Reti Elettriche S.r.l..

With reference to Unareti S.p.A, seven interventions were included in the Plan for the first time, all related to the critical risk factor “heat waves” in the Milan area, for a total investment of approximately 3.6 million euro.

Finally, with reference to the methods and timing of payment of the premiums<sup>13</sup> and penalties, the Resolution provided that, by December 31, of each year from 2020 to 2025, the Authority shall determine the premiums and penalties to be paid into the CSEA account “Quality of electrical services” relating to eligible interventions, with date of actual completion in the previous year. In line with these deadlines, Resolution 563/2020/R/eel determined the premiums relating to the interventions of the 2020-2022 Resilience Plan concluded in 2019 of Areti S.p.A., Ireti S.p.A. and Unareti S.p.A. In the case of Unareti S.p.A., the amount of the premium related to a restoration project in the Milan area was 104.4 thousand euro.

<sup>12</sup> The “main distribution companies” are those with: i) more than 300,000 users; ii) more than 100,000 users; iii) less than 100,000 users directly connected to the National Transmission Grid.

<sup>13</sup> By subsequent Resolution 566/2019/R/eel, it was established that premiums for increasing the resilience of distribution networks will be financed by the MV Users Fund.

### Remediation of the old riser columns of the electricity distribution network in condominiums

Resolution 467/2019/R/eel defined an experimental three-year regulation (January 1, 2020 - December 31, 2022) on the modernization - with or without centralizing the meters - of the old riser columns of the electricity distribution network in condominiums, required of all distributors, regardless of their size in terms of POD served.

In order to overcome any reluctance on the part of condominiums to the implementation of these interventions, the Authority, in addition to the definition of a “Standard Contract” (adoptable by distributors from November 1, 2020 after a long phase of preparation of the necessary documentation, concluded with the communication to ARERA for its final consideration), has provided an incentive mechanism under which the distributor:

- will have to pay the condominium an amount to cover the costs incurred by the latter in relation to the demolition/restoration works (and possibly electrical works in the case of centralization) in an amount equal to the lesser of the amount actually spent and a parametric amount calculated on the basis of the number of users and the level of value of the building;
- this amount will be recognised under the tariff mechanisms<sup>14</sup>, subject to completion by September 30, 2022 of the obligatory census of its old riser columns.

Unareti S.p.A. will carry out the majority of the interventions in the Milan area, the most critical due to the greater number of “single users” connected to the network through a riser column owned by the distributor. An initial recognition has led to the quantification in Milan of approximately 16,800 buildings for over 27,000 risers while in Brescia of approximately 1,900 buildings for about 3,200 risers.

### 2G Smart Metering Systems for the metering of low voltage electrical energy and approval of PMS2 by Unareti S.p.A.

Resolution 87/2016/R/eel, in implementation of Legislative Decree July 4, 2014, no. 102, defined, in view of the replacement of the first-generation electrical meters (1G) that will have completed the useful life provided for regulatory purposes (15 years):

- a. functional requirements and specifications of electricity meters in LV - version 2.0;
- b. levels of performance of the related second-generation smart metering systems (2G metering systems).

With regard to the functional requirements, the Authority, following investigations carried out also with AGCOM, with Resolution 409/2019/R/eel considered it inappropriate to provide for specific obligations regarding a “2.1” version of the 2G smart meter, while at the same time mandating the CEI to set up a working group to verify the feasibility of the realization, by third parties with respect to the distribution companies, of a “smart terminal cover” (i.e. a terminal cover that integrates the user device and that is easy to install).

Resolution 646/2016/R/eel defines the cost recognition procedures applicable to 2G smart meters, subsequently updated for the period 2020-2022 by Resolution 306/2019/R/eel to take into account, among other things, the differences between the main distributor (which has launched its own plan for the commissioning of 2G smart meters in 2017) and the remaining operators.

The main provisions on the recognition of costs can be summarized as follows:

- the presence of obligations relating to the start/conclusion of the massive phase of the replacement plan. In particular, for distributors >100,000 PODs, it is assumed that the massive phase will start by 2022 with the objective of replacing at least 90% of the existing meters by 2025. The obligations for distributors <100,000 POD will be defined by a subsequent measure;
- obligation to prepare detailed plans for the commissioning and public consultation of a 2G smart metering system (PMS2), in the terms and manner defined by the Authority;
- determination of a single threshold of 130 €/meter for the calculation of the maximum capital expenditure condition for admission of the plan to a fast track valuation;
- specific methods for recognizing investments in 2G smart meters, with the possibility of obtaining premiums or penalties based on the degree of consistency between the unit costs actually incurred and those agreed with the Authority. In addition, a maximum number of 2G meters of first installation is provided, recognizable in tariff for each year of the plan (Conventional Plan - PCO, defined according

<sup>14</sup> The construction works will be recognized in RAB through their accounting in the fictitious asset “Old riser columns”, while the costs incurred for the census of the riser columns will be covered with a contribution of 20 euro/condominium surveyed (linked to the completion of the census, as well as the proper storage of information for 5 years) and with a further contribution of 70 euro/condominium surveyed to be included among the costs capitalized in the aforementioned asset “Old riser columns”.

to the tariff profile for the installation of 1G meters). In this context, a corrective mechanism for the PCO has been introduced, which is modulated so as to anticipate from the end to the beginning of the period the tariff recognition of part of the total quantity of meters to be replaced;

- presence, starting from the 4th year of the plan, of a penalty mechanism in case of non-compliance with the performance levels set by Annex B to Resolution 87/2016/R/eel (% of readings collected within 24 hours and % of success of remote management operations within 4 hours). The annual penalty is based on the capital expenditure allowed for tariff recognition and the level of non-compliance. There is also provision for a penalizing mechanism in the event of non-compliance with the progress of the PMS2. There are, however, annual and multi-year ceilings on the penalties that may be imposed on the operator.

Finally, there are specific provisions for reporting both the capital and operating costs actually incurred in each year of the plan and the physical quantities of meters actually installed.

Pending the start of the replacement plans, the Authority has established the modalities for the recognition of investments in 1G meters for the years 2017-2020, limiting the recognized unit cost to 105% of the unit cost of 1G meters for the year 2015. Similarly, the method for the recognition of investments in 2G meters made outside the replacement plan and relating to "ordinary user management" (see TIME 2020-2023) was defined. The maximum recognizable gross investment value per 2G meter installed in the years 2018 and -2020 is equal to the sum of:

- 125% of the average unit cost incurred by the distribution company in 2015 for the supply of 1G meters of first installation;
- 105% of the gross investment per 1G meter, net of the average cost for the supply of installed meters, incurred in the same year 2015 (therefore equivalent to the cost of installation).

In September 2019, Unareti S.p.A. submitted for approval its 2G roll out plan, which contains the replacement of approximately 1.3 million meters with a massive phase planned for the period 2020-2024. Following an extensive discussion with the Authority's offices, Resolution 278/2020/R/eel approved the plan proposed by the company, which is currently being implemented and will involve, for the first 2 years, the localities in the Brescia area, including the provincial capital.

From an economic point of view in the 2G Plan of Unareti S.p.A., investments are estimated (at constant values 2019) for over 182 million euro and about 100 million euro of operating costs with a resulting unit cost for the 2G smart meter equal to 132.5 euro.

## Finalization of the regulation of network losses for the three-year period 2019-2021 and revision of the conventional loss percentage factors to be applied to LV withdrawals

Resolution 449/2020/R/eel updated, retroactively from 2019, the conventional percentage factors of commercial losses to be applied to distribution companies for equalization purposes for the three-year period 2019-2021, with the consequent revision of the standard loss factors to be applied to end customers as of January 1, 2021.

Insofar as it is of interest, the factor for the NORTH area decreases from 1% to 0.94%, resulting in a reduction of the equalization amount given by the value of the difference between actual losses and standard losses for electricity distributors that have a credit balance with the system. With reference to the 2019 loss equalization, calculated and settled in 2020, this reduction for Unareti S.p.A. is equal to approximately 180,000 euro (loss with respect to any amounts already allocated). The allocation for 2020 (and to be settled in 2021) is 3.6 million euro and takes into account the new values of the conventional commercial loss parameter.

The Resolution introduced additional amendments to the previous regulation, consisting of overcoming the process of increasing the efficiency of commercial losses envisaged for the previous three-year period, making certain changes to the way in which equalization is calculated and introducing a mechanism, accessible only under special conditions, for covering network losses attributable to fraudulent withdrawals that cannot be recovered and are exceptional in relation to the levels recognized by agreement.

Lastly, the Resolution provides that, starting on January 1, 2021, the conventional loss percentage factors that sellers must apply to their LV-connected end customers will be updated, bringing them from the current 10.4% to 10.2%, in line with the changes described above.

## Instruments to protect distributors' credit

Since 2016, as a result of the insolvencies accounted for by some sales companies and the litigation involving the Standard Network Code for the transport of electricity (i.e. CTTE) on the issue of financial

guarantees to be presented to cover General System Overheads (OGS), ARERA has undertaken many initiatives aimed at strengthening the credit protection of distributors.

Resolution 50/2018/R/eel introduced a mechanism for the compensation of OGS paid but not collected by distributors. The mechanism is financed by an Account set up at the CSEA, supplemented both by any amounts collected by distributors subsequent to the recognition of the amount for previous years, and by tariff revenues supplemented by the components covering the OGS.

Resolution 461/2020/R/eel, completing the above measure, subsequently introduced a similar compensation mechanism for the failure to collect tariffs for network services. In this sense, CSEA has already paid Unareti S.p.A. an amount of 0.5 million euro to cover network overheads not otherwise recoverable relating to the period January 1, 2016 - December 31, 2019.

Lastly, with Resolution 261/2020/R/eel, ARERA made urgent additions to the CTTE concerning the provision of guarantees and the handling of defaults, with the aim of strengthening the protection of distributors. In particular, limiting provisions have been introduced to the forms of credit rating and acceptable insurance sureties.

Energy efficiency certificates and tariff contribution recognized to distributors for fulfilment of the obligation

Energy Efficiency Certificates (TEE) or White Certificates (WC) are negotiable certificates issued by the GSE that certify the achievement of energy savings in final uses through the realization of energy efficiency interventions. The system was introduced by Ministerial Decrees July 20, 2004 as amended, and provides for electricity and natural gas distributors to reach annual quantitative targets for primary energy savings, expressed in tonnes of oil equivalent (TOE) saved. A TEE/WC is equivalent to 1 TOE. Electricity and gas distributors can fulfil the obligation by directly realizing energy efficiency projects that entitle the issue of WC or by purchasing WC from other entities that generate them on the market (typically from Energy Service Companies – ESCO). The Authority defines the methods for determining and paying the tariff contribution to be paid to distributors and the revenue is collected through fees applied to electricity and gas bills.

The table shows the energy saving targets defined by the MiSE MD January 11, 2017.

		National Energy Saving Targets	Targets for distributors of electricity <sup>(1)</sup>	Targets for distributors of gas <sup>(1)</sup>	Minimum target <sup>(2)</sup>	Period to compensate the residual obligatory portion <sup>(2)</sup>
		(Mtep/year)	Millions of WC	Millions of WC	(%)	(no. years)
Ministerial Decree December 28, 2012	2013	4.60	3.03	2.48	50%	2
	2014	6.20	3.71	3.04	50%	2
	2015	6.60	4.26	3.49	60%	2
	2016	7.60	5.23	4.28	60%	2
Ministerial Decree January 11, 2017	2017	7.14	2.39	2.95	60%	1
	2018	8.32	2.49	3.08	60%	1
	2019	9.71	2.77	3.43	60%	1
	2020	11.19	3.17	3.92	60%	1

(1) Obligated entities: electricity and gas distributors with more than 50,000 final customers.  
(2) Minimum target and compensation period: the obliged entity that achieves an obligation portion of less than 100% but still at least the minimum target set by the Ministerial Decree (50% or 60%) may offset the residual portion in the two-year period (n+2) or in the following year (n+1) without incurring penalties.

MD May 10, 2018 amended MiSE MD January 11, 2017 by providing:

- the fixing of a maximum value (cap) to the tariff contribution of 250 €/WC;
- the issuance of WC to the overrun by the GSE to distributors that, from May 15 to May 31, request it at a value equal to the difference between 260 €/WC and the value of the tariff contribution for the year of obligation, up to a maximum delta of 15 euro.

The obliged parties can request said WC to the overrun until the minimum obligation is reached, provided they are already in possession of a WC amount of at least 30% of the minimum obligation on their ownership account. For the cancellation of these WC, the tariff contribution will not be recognized. Distributors can then redeem all or part of the amount paid for the purchase of WC from the GSE for delivery of WC generated by projects or bought on the market. The redemption takes place from

the first WC and is possible only if the obliged party holds a number of WC exceeding the minimum obligation for the current obligation year. However, it is not possible to proceed with the redemption in the same obligation year in which the WC were issued.

The tariff contribution for the current year will be paid for the WC cancelled as replacement of the GSE ones. The return of the sum paid to the GSE is made by an adjustment to the tariff contribution.

For each obligated party, the possibility of fulfilling on November 30 of each year up to 40% of the obligation of the current year and 75% of any remaining quotas of the previous obligatory years is confirmed. The Ministerial Decree of May 10, 2018 reintroduces the possibility of offsetting the residual compulsory portion in the following two compulsory years.

With the new Ministerial Decree is the publication of the types of incentive intervention with the standardized mode and the related files containing the methods of calculation (including installation of LED for street lighting and conduct measures) applicable to interventions with starting date of realization subsequent to the date of entry into force of the Ministerial Decree.

Unareti S.p.A. is the third distributor in Italy obliged to achieve energy savings under the WC mechanism. Determination 1/2019 defined the quantities of WC to be cancelled for the obligation year 2019, while Determination 1/2020 (subsequently corrected for a clerical error by Determination 4/2020) defined those for 2020.

Obliged Party	TEE 2019 Obligation	TEE 2020 Obligation
Unareti S.p.A. (Ele+Gas)	322,008	372,009
ACSM-AGAM Reti Gas Acqua S.p.A.	33,022	41,874
Lario Reti Gas S.p.A.	20,649	23,510
LD Reti S.p.A.	71,121	81,140
Total	446,800	518,533

In consideration of the COVID emergency, Decree Law 34/2020 (Relaunch Decree) postponed the deadline for the cancellation of the 2019 annual obligation from May 31 to November 30, 2020. This extension had both a financial impact (due to the resulting delay in the settlement of the tariff contribution) and an operational impact on the 2020 obligation year which - given the deadline of May 31, 2021 - is likely to be reduced to only 6 months.

In execution of Sentence 2538/2019 of the Lombardy Regional Administrative Court, ARERA adopted Resolution 270/2020/R/efr on updating the method for calculating the tariff contribution with validity from the 2019 obligation year: the new calculation formula provides for a unit contribution defined on the basis of the average market price (including also bilateral exchanges) with a cap equal to 250 €/TEE and an additional contribution - an innovative element compared to the past - in order to compensate obligated entities that have incurred a price higher than 250 €/TEE due to the scarce availability of WC on the market and paid only regarding physical WC, obtained against projects or purchases on the market. In order to reduce the financial hardship associated with the extension of the 2019 obligation year, the measure introduced the possibility for obligated entities to request, by August 2020, an extraordinary down payment of 250 €/TEE with a cap equal to 18% of the annual obligation. A percentage of profit sharing is also introduced to promote the efficiency of the obligated parties in the negotiation of TEE, raised to 10% but that, at the moment, is not able to have an impact because market prices are stably higher than the cap of 250 €/TEE.

Resolution 550/2020/R/efr determined the value of the 2019 tariff contribution to be 254.49 €/TEE (CT unit: 250 €/TEE + additional CT: 4.49 €/TEE), up on the previous value (248.89 €/TEE) thanks to the new calculation method, which had an economic benefit for the Group of approximately 1.75 million euro compared to the previous method.

The MiSE Ministerial Decree is expected to identify the regulatory framework for the new period (2021-2024), confirming the WC system, albeit with a probable reduction in obligations compared to the previous period.

### Activities of ARERA in the regulation and control of the Integrated Water Service (SII)

#### Approval of the water tariff method for the third regulatory period 2020-2023

Resolution 580/2019/R/idr approved the SII Tariff Method (MTI-3) for the third regulatory period (2020-2023), defining the rules for calculating the costs eligible for tariff recognition, as well as the limits to the applicable tariff increases (reduced compared to the maximum levels provided for in the previous regulatory period). In the same Resolution, the parameters were updated of the Water Risk Premium (1.7%), beta (relative riskiness of the SII equal to 0.79), inflation rates to update operating costs, gross fixed investment deflators, and rate  $t_c$  for the calculation of financial and fiscal charges (it follows that the component covering financial and fiscal charges stands at 5.2%).

The regulations confirmed the four-year duration of the regulatory period as well as the time frame for the Ambit Government Entity (EGA) tariff provisions, with an update every two years.

The main additions concern:

- the change in the recognition of financial charges on Work in Progress (LIC):
  - LIC with balances that have remained unchanged for more than 4 years excluded from tariff recognition;
  - application to LIC of a lower rate compared to fixed assets entered into operation and decreasing over time;
- the drafting, in addition to the Plan of Interventions, of a Plan for Strategic Works (POS) 2020-2027 containing the forecast of infrastructural interventions dedicated to complex works with a useful life greater than/equal to 20 years priority for the quality of service. The LIC of the works contained in the POS benefit from full (and not decreasing) tariff recognition;
- the modification of the regulatory useful lives, for assets that came into operation in 2020, dividing the assets between aqueduct, sewerage, purification and common activities and associating them with the relative macro-indicator of technical and commercial quality;
- the introduction of an incentive for the measures put in place by the Operator to make users more aware of their consumption and to encourage the procedures for limitation in case of default and selective disconnection of supply;
- in the calculation of the adjustments of the other water activities, the activities linked to energy and environmental sustainability objectives have been separated, to which the Manager is granted a sharing equal to 75% of the difference between revenues and costs incurred. The benefits of this "incentive" will apply in the tariffs 2022 (a+2).

The new mechanism was subsequently modified by Resolution 235/2020/R/idr in order to mitigate, with the introduction of some elements of flexibility, the effects of the COVID-19 emergency on the economic and financial equilibrium of operations and on the conditions of performance of services, guaranteeing the continuity of essential services. Specifically, the following were planned:

- the extension to July 31, 2020 (instead of April 30) of the deadline by which the EGA, or other competent entity, is required to submit the relevant regulatory framework setting out the tariff arrangement for the third regulatory period 2020-2023;
- the application to ordinary LIC, for the years 2021 and 2022, of the rate recognized for fixed assets relating to strategic works;
- the introduction, for 2020, of the forecasting component (with recoverable deviations between the components with adjustment in a+2), which takes into account both the additional costs related to the emergency and the lower operating costs incurred by Operators for the initiatives taken to combat the spread of the virus (e.g. the use of CIGO);
- the possibility for EGA for 2020 to postpone to subsequent years, however by 2023, the recovery of the portion of charges eligible for tariff recognition and to adopt measures for the financial sustainability of Operators following the health emergency.

On December 29, 2020, the Brescia EGA resolved the tariff increases for the regulatory period 2020-2023: tariff increases of 2% and 1.5% per annum respectively have been approved for A2A Ciclo Idrico S.p.A. and Azienda Servizi Valtrompia S.p.A. for the two-year period 2020-2021.

With regard to the Operator Lereti S.p.A. belonging to the ACSM-AGAM Group:

- with regard to the province of Varese, the proposed aqueduct tariffs are currently being assessed and approved by the competent EGA;
- with regard to the province of Como, the 2012-2023 aqueduct tariff proposals were approved, for the time being, only by the competent EGA on January 19, 2021 (we are waiting for the conclusion of the process that sees the passage to the Meeting of Municipalities and the Province to then be approved by ARERA).



millions of euro	Constraint to Operator Revenues (VRG) 2020	Constraint to Operator Revenues (VRG) 2021	RAB 2018 (net residual) underlying 2020 tariffs	RAB 2019 (net residual) underlying 2021 tariffs
A2A Ciclo Idrico S.p.A.	93.8	90.3	283	305.7
ASVT S.p.A.	9.6	9.6	16.7	20.1

millions of euro	Constraint to Operator Revenues (VRG) 2020	Constraint to Operator Revenues (VRG) 2021	RAB 2018 (net residual) underlying 2020 tariffs	RAB 2019 (net residual) underlying 2021 tariffs
Lereti COMO	pending conclusion of approval process			
Lereti VARESE	24.5	26.5	35.2	38.7

Revision of the tariff structure applied to end users

In order to harmonize the tariff structure applied to end users throughout the national territory, Resolution 665/2017/R/idr approved the Integrated Text of Water Service Fees (TICSI) in force since January 1, 2018. The TICSI introduces the concept of standard per-capita tariff and includes:

- the distinction between resident and non-resident, condominium and non-domestic users;
- the application to resident domestic users of a standard per-capita tariff for a transitional period (2018-2021) and, in any case, until the actual availability of information, defined on the basis of a typical family of 3 members (with the first facilitated bracket equal to 55 mc/year) and an actual per-capita tariff (facilitated bracket: at least 18.25 mc/year per member) only in the case of self-declaration regarding the number of members of the household;
- the regime tariff structure as from 2022 with the application of the effective per capita tariff to all resident domestic users;
- the rationalization of tariff types for uses other than domestic;
- the application of a trinomy tariff (fixed portion, capacity portion and variable portion) uniform at national level for industrial users related to discharges of waste water authorized to discharge into public sewers. This tariff is designed to intercept with the variable portion, quality in terms of pollution of the discharge, with the capacity portion, the correct allocation of the costs to use the treatment capacity of the plant destined to receive the discharges, and with the fixed portion, the coverage of administrative and metering costs;
- the assessment of the effects of the new tariff structure on the revenues of the Operator, providing for ex ante and ex post checks.

The tariff structure is adopted by the EGA on the basis of the data provided by the Operators and was to be submitted to the Authority by June 30, 2018.

- the Brescia EGA approved the new structure on February 13, 2020 and on July 31, defined the guidelines to be used for billing: each Area Operator must recalculate the annual payments for 2018, 2019 and 2020 by December 31, 2021;
- the Como EGA approved the tariff rate structure at the January 19, 2021 Board meeting effective January 1, 2018. Therefore, during 2021, the 2018, 2019 and 2020 annuities must be recalculated by Lereti S.p.A. with the related tariff increases, resolved at the same meeting;
- lastly, the new tariff structure for the province of Varese had already been approved by the competent EGA during 2019.

Integration of the contractual quality discipline of the SII (RQSII)

Resolution 547/2019/R/idr supplemented the regulation of the contractual quality of the SII in order to strengthen the protection of users and the guarantee of adequate levels of performance of Operators, introducing a new mechanism of premiums and penalties in compliance with the minimum standards set out in Resolution 655/2015/R/idr (RQSII). The new incentive mechanism, effective January 1, 2020, is based on the development of 2 macro-indicators, MC1 and MC2, obtained by aggregating the 42 simple indicators provided by RQSII (28 specific standards, already associated with automatic indemnities in case of non-compliance, and 14 general standards):

1. MC1 - “Start and termination of the contractual relationship”: composed of indicators relating to the provision of estimates, the execution of connections and works, the activation and deactivation of the supply;
2. MC2 - “Management of the contractual relationship and accessibility to the service”: composed of performance indicators relating to appointments, billing, meter and pressure level checks, replies to written requests and management of contact points with users.

The mechanism is similar to that for technical quality, where premiums and penalties are defined through subsequent stages of evaluation, distinguished by level of evaluation (basic and excellence) and by starting level (maintenance or improvement). The quantification of premiums and penalties will take place from 2022 on the basis of performance in the previous two years. For the starting levels of the first year, the 2018 contract quality data already sent to ARERA in May 2019 will be used.

The Resolution also extended the protection of RQSII to subjects that, although not under contract, require the provision of certain services preparatory to the conclusion of the supply contract.

### Extension of the two-year prescription also to SII

Resolution 547/2019/R/idr, in addition to supplementing the contractual quality regulations, introduced, as from January 1, 2020, disclosure obligations for the Operator in the event of a two-year prescription for consumption, as governed by Law no. 205 of December 27, 2017.

In analogy to the regulations already introduced in other regulated sectors (electricity and gas), the Authority has ordered that in the case of billing amounts relating to consumption dating back more than two years, the Operator is required to provide adequate evidence of their presence on the bill, differentiating them from those relating to consumption dating back less than two years. It has also been provided that the amounts subject to the prescription cannot be collected using pre-authorized SEPA Direct Debit - SDD (bank, postal or credit card) collection methods.

The Law required that the prescription not be recognized to customers in the event that the failure or erroneous collection of consumption data was attributable to the customer: article 1, paragraph 295, of the 2020 Budget Law has removed this case and the Authority, with Resolution 186/2020/R/idr, has modified the communication in bills, requiring that the two-year limitation period always be recognized regardless of the established responsibility of the customer.

### Settlement of default in SII

Prime Ministerial Decree of August 29, 2016, entrusted to the Authority the definition of forms of containment of default, access to the vital minimum quantity of water (equal to 50 litres/day per capita) for all resident home users at a facilitated tariff (amount to be guaranteed even in case of default) and the definition of customers that cannot be disconnected.

Following the publication of three DCO, Resolution 311/2019/R/idr (REMSI) defined the rules for the management of default, effective January 1, 2020:

- a specific procedure, with clearly defined timelines (e.g. an amicable reminder, notice of default, payment in instalments, etc.), that the Operator must adopt before the suspension of service. If the procedure is not followed, the user is entitled to a specific indemnity;
- for households (other than those that cannot be switched off), the suspension of the service is only possible after the limitation procedure;
- for condominium users, the Operator may not proceed to limit/suspend the supply against partial payments equal to at least half of the amount and made within the deadline provided for in the notice of default.

Certain provisions contained in the new regulations were subsequently amended by the Authority in implementation of Law 160/2019 (2020 Budget Law):

- introduction of the obligation to include in the notice of default, relating to unpaid amounts for consumption dating back more than 2 years, communication aimed at making the user aware of the possibility of not paying any amounts due (Resolution 186/2020/R/idr);
- obligation to send the amicable reminder exclusively by registered letter with return receipt or certified e-mail (Resolution 221/2020/R/idr);
- modification of the deadline by which the user is required to pay any amounts due (40 days). The deadline is calculated from the date of receipt of the amicable reminder (Resolution 221/2020/R/idr).

### 2018 Budget Law: National plan for action in the water sector

Article 1, paragraph 516, of Law 205/2017 requires, for the purpose of planning and implementing the measures necessary to mitigate the damage related to the phenomenon of drought and to promote the strengthening and adaptation of water infrastructures, with a specific Prime Ministerial Decree adoption of the "National Plan of Action in the Water Sector", divided into two sections: "aqueducts" section and "reservoirs" section, for the achievement of the following priority objectives:

- a) achievement of adequate levels of technical quality;
- b) recovery and expansion of the maintenance and transport of the water resource, also with reference to the storage capacity;
- c) dissemination of tools aimed at saving water in agricultural, industrial and civil uses.

The measures of the National Plan and reported by the EGAs are financed with public resources.

With Report 268/2018/R/idr, the Authority has drawn up a first list of necessary and urgent interventions, including construction of the aqueduct, sewerage and treatment network, which is currently absent, in the municipality of Calvisano (BS) managed by A2A Ciclo Idrico S.p.A., to which a loan of approximately 22 million euro is allocated. The total investment (21.8 million euro for the aqueduct alone, plus 23.5 million euro for sewerage/treatment) will be developed in the regulatory period 2020-2023.

The following Report 252/2019/R/idr has detailed the amounts for each of the two Chapters of expenditure 2019 and 2020: for the Municipality of Calvisano, a disbursement of two tranches is planned for 2019 and 2020 of 3.8 million euro.

With Prime Ministerial Decree of August 1, 2019 "Adoption of the first excerpt of the National Plan of interventions in the water sector - aqueducts section", 26 interventions were approved (among which the one for the Municipality of Calvisano) for a total amount of 80 million euro for the two years 2019 and 2020.

Resolution 425/2019/R/idr defined the rules for the disbursement of the resources necessary to carry out the interventions, establishing at the CSEA the "Account for the financing of the interventions of the National Plan, Aqueducts section as per Law 205/17". Subsequently, Resolution 512/2019/R/idr authorized CSEA to grant the first tranche of financing to the approved interventions.

Resolution 284/2020/R/idr initiated the procedure for the identification of the second list of necessary and urgent interventions for the SII for the purpose of updating the "aqueducts" section of the National Plan. The Authority, as part of the launch, intends to define a single plan (submitted by the respective EGAs and Regions) based on a multi-year programme for the period 2021-2028, to which the entirety of the residual resources provided for in article 1, paragraph 155, of Law 145/2018 for the "aqueducts" section of the National Plan will be allocated. As part of this process, in September, the ACSM-AGAM Group presented some strategic projects that still need to be validated by the Lombardy Region.

Resolution 520/2020/R/idr revised some of the provisions contained in Resolution 425/2019/R/idr in consideration of the emergency situation in 2020, providing that CSEA will disburse the shares of funding for the implementation of seven interventions, including Calvisano (amount disbursed in 2020 about 3.8 million euro).

## Activities of ARERA in the regulation and control of the district heating/cooling sector (or district heat)

Legislative Decree no. 102/2014, which transposes Directive 2012/27/EC on energy efficiency, granted the Authority specific powers to regulate and control under articles 9, 10 and 16, including in the district heating/cooling sector, even if only on specific aspects, since this is not a real tariff regulation. The powers concern, in fact, the preparation of measures on connection and disconnection from the networks, withdrawal rights, commercial and technical quality of service, the way in which operators make public the prices of the supply of heat.

The Authority is also entrusted with the task of implementing the provisions on metering, billing, access to consumer data in order to increase customer awareness and change consumer behaviour.

Resolution 548/2019/R/tlr defined, for the period January 1, 2021 - December 31, 2023, the regulation of the technical quality of the district heating and cooling service (RQTT) with reference to the safety and continuity of the service, introducing obligations on emergency response, the management of interruptions (with a specific general quality standard) and dispersions as well as obligations to record information relating to safety and quality for annual communication to the Authority. The aim is to guarantee a greater degree of protection for users and to encourage the spread of the service through a progressive increase in the performance of the sector with the definition of uniform minimum standards at national level.

Following the COVID-19 emergency, Resolution 188/2020/R/tlr postponed:

- to October 1, 2020, the entry into force of certain provisions of the Integrated text on the transparency of district heating and cooling services (TITT) concerning the minimum content and transparency of billing documents, as well as service quality and users' rights, initially planned for July 1, 2020;
- to January 1, 2021, the entry into force of the technical quality regulation, initially scheduled for July 1, 2020.

Resolution 478/2020/R/tlr defined the regulation of metering in the district heating and cooling service (TIMT) for the period January 1, 2022 - December 31, 2024, introducing service obligations and quality standards for the metering of energy supplied to users by defining minimum reading frequencies, obligations for the communication of readings by Operators, the introduction of the obligation to self-read, the definition of calculation methods for estimating and reconstructing consumption and rules for archiving data. The regulation of the minimum performance characteristics of the meters has been postponed to a subsequent provision.

Resolution 537/2020/R/tlr extended, from July 1, 2021, also to the district heating sector the system of protections for the handling of complaints and the out-of-court settlement of disputes with end users already in place in the other regulated sectors. The Authority has introduced two levels of protection: a basic level that provides for the extension of the contact center service of the Energy and Environment Consumer Desk to district heating, and a second level that allows end users to activate a conciliation procedure before the Authority's Conciliation Service.

Lastly, proceedings were recently started for the revision of some regulations for the second regulatory period: Resolution 11/2021/R/tlr began the process of adopting measures concerning connection fees and methods for exercising the right of withdrawal, while Resolution 27/2021/R/tlr began the process of adopting measures concerning commercial quality.

### **GSE checks: cogeneration plant combined with district heating in Canavese (MI)**

The cogeneration plant combined with district heating called Canavese and located in Milan was qualified IAFR by the GSE on July 28, 2010 (code 5072) for the purpose of obtaining Green Certificates (GCs) pursuant to Law 239 of August 23, 2004 and the subsequent Ministerial Decree of October 24, 2015. The incentive period was from January 1, 2011 through December 31, 2018.

On March 12-14, 2018, the GSE initiated a verification procedure aimed at analyzing the achievement of: i) CAR (high-efficiency cogeneration) qualification and ii) GCs.

On March 25, 2019, after a series of integrations provided by the Company, the GSE sent a letter of first outcome in which it contested the undue obtaining of GCs for heat delivered on primary pipeline that came into operation after December 31, 2009, a date that the GSE considers the deadline to extend the network for the purposes of the incentive, and requests the restitution of a number of GCs equal to 109,032 MWh in addition to the restitution of 23,447 MWh of GRIN Tariff received since January 1, 2016.

In February 2020, the GSE closed the inspection visit with reference only to the verification of the CAR qualification in view of a malfunction of the metering instruments.

There have been numerous discussions with the GSE since A2A Calore & Servizi S.r.l. has never agreed with December 31, 2009 as the date for freezing the grid configuration for the purposes of the incentive. The same Ministerial Decree of October 24, 2015, moreover, in granting 4 years to the operator to define the date of entry into commercial operation opened to evaluations on the evolution of the system beyond December 31, 2009. In addition, over the years, A2A Calore & Servizi S.r.l. has always communicated to the GSE the network extensions made with the connection of utilities, providing from time to time, the names and locations of the utilities connected after December 31, 2009. This is documentary evidence of the good faith that the company has always had in the interpretation of the rule.

In consideration of the entry into force of article 56, paragraph 7, of Law Decree 76/2020 (Simplification Decree converted into Law 120/2020), the company provided further integrations in November 2020. This paragraph (as stated in the Explanatory Report) was introduced with the express purpose of "establishing conditions of certainty and stability for long-term investments that companies make in the renewable energy sector" in line with the spirit of EU legislation on the matter which "in highlighting the role of national support schemes for the production of renewable energy, underlines the necessary characteristics of stability and legal certainty".

It is precisely in light of these rationales that the simplification decree confirms that "the powers of control by Gestore dei Servizi Energetici S.p.A must be exercised within the limits of administrative self-protection, as per article 21-nonies of Law no. 241/1990" and, therefore, the effects of the exercise of such powers on the investments made must be adequately weighted.

The company considers that it is within these new coordinates that the proceedings arise relating to the Canavese plant, which has seen very large investments made over the years.

The amendments brought by the Simplification Decree is along the same lines as previous regulatory interventions that have gradually taken place regarding the control of incentives: interventions all aimed at taking into account the good faith of operators that have made significant investments in favour of energy transition and, in this case, also in the development of a public service (moreover not regulated by ARERA in its components of costs/revenues). These include, for example, the one made under Law 124/2017 on energy efficiency certificates.

However, pending the clarifications to be provided by the GSE, the company has decided to further increase the risk provision, which now totals more than 14 million euro.







# 5

Consolidated results  
and report on operations



## 5.1 Summary of results, assets and liabilities and financial position

### Results

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

- the equity 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 equity investment held by A2A S.p.A. in Ge.S.l. 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 equity investment.

In addition, the income statement figures for the year ended December 31, 2020 are inconsistent with the prior year as the transactions listed below had only partially contributed to the 2019 results:

- 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.

The results of the A2A Group at December 31, 2020 are set out below together with comparative figures for the previous year.

millions of euro	01 01 2020 12 31 2020	01 01 2019 12 31 2019	Changes
<b>Revenues</b>	<b>6,862</b>	<b>7,324</b>	<b>(462)</b>
of which:			
- Revenues from the sale of goods and services	6,668	7,122	(454)
- Other operating income	194	202	(8)
Operating expenses	(4,953)	(5,390)	437
Labour costs	(705)	(700)	(5)
<b>Gross Operating Income - EBITDA</b>	<b>1,204</b>	<b>1,234</b>	<b>(30)</b>
Depreciation, amortization and write-downs	(560)	(511)	(49)
Provisions	(94)	(36)	(58)
<b>Net Operating Income - EBIT</b>	<b>550</b>	<b>687</b>	<b>(137)</b>
<b>Result from non-recurring transactions</b>	<b>-</b>	<b>4</b>	<b>(4)</b>
Net financial balance	(81)	(114)	33
Affiliates	-	4	(4)
<b>Result before taxes</b>	<b>469</b>	<b>581</b>	<b>(112)</b>
Income taxes	(99)	(189)	90
<b>Result after taxes from operating activities</b>	<b>370</b>	<b>392</b>	<b>(22)</b>
Net result from discontinued operations	(2)	1	(3)
Minorities	(4)	(4)	-
<b>Group result of the year</b>	<b>364</b>	<b>389</b>	<b>(25)</b>

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In 2020, the **Revenues** of the A2A Group amounted to 6,862 million euro, down by 6.3% compared to the previous year.

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 (EECs).

On the other hand, the positive contribution of higher retail sales to key electricity accounts and the contribution of the business acquired in 2020 should be noted.

The **EBITDA** equalled 1,204 million euro, a decline of 30 million euro compared to 2019 (-2.4%).

Net of non-recurring items (+13 million euro in 2020, +42 million euro in the previous year), Ordinary EBITDA is in line with the previous year (-1 million euro).

The following table highlights the composition by Business Unit:

millions of euro	12 31 2020	12 31 2019	Delta	Delta%
Generation and Trading	270	301	(31)	(10.3%)
Market	220	229	(9)	(3.9%)
Waste	282	268	14	5.2%
Networks	456	472	(16)	(3.4%)
Corporate	(24)	(36)	12	(33.3%)
<b>Total</b>	<b>1,204</b>	<b>1,234</b>	<b>(30)</b>	<b>(2.4%)</b>

EBITDA of the Generation and Trading Business Unit amounted to 270 million euro, a decrease of 31 million euro compared to the previous year. Before non-recurring items (equal to +8 million euro in 2020 and +14 million euro in 2019), Ordinary EBITDA dropped by 25 million euro.

The change was mainly due to:

- the negative effects, accentuated by the emergency situation suffered by the power generation sector, due to the severely penalizing scenario and demand decline, mainly in the first part of the year;
- the reduction in hydroelectric production;
- the effective hedging strategy;
- the excellent performance booked in the ancillary services market ("MSD").

The downturn in margins recorded in the first nine months of the year by the Generation and Trading Business Unit, determined by the dynamics of consumption and prices, was strongly reduced in the fourth quarter of the year both due to the lessening of the negative effects of the energy scenario and the excellent results achieved on the ancillary services market.

EBITDA of the Market Business Unit equalled 220 million euro (229 million euro at December 31, 2019). Net of non-recurring items (+6 million euro in 2020; +22 million in 2019), the EBITDA of the Business Unit came to 214 million euro, up 7 million euro on the previous year.

The change was due to:

- the increase in the number of customers in the free electricity and gas market: 263 thousand more in the free mass-market segment on end 2019, of which 119 thousand relative to the AEB Group.
- greater sales of key accounts in the electricity market;
- the greater unitary margins of sales in the free electricity and gas market, including the regulated components that cover marketing costs
- lesser gas sales to key accounts;
- the lesser margins of the energy solutions business as a consequence of the decline in revenues from the sale/disposal of energy efficiency certificates (EECs) and the reclassification of Consul System amongst companies held for sale (in 2019, the company recorded approximately 4 million euro in EBITDA).

The contribution of the Market Business Unit to the fourth quarter results was significant thanks to the increase in the number of customers in the free electricity and gas market, also due to the change in the scope of consolidation of the AEB Group from November 1, 2020.

Moreover, in the last quarter of the year, there were no longer the temporary effects that had penalized the margins of the energy efficiency and public lighting activities in the first nine months (the postponement from May to November of the procurement by distributors obliged to cancel Energy Efficiency Certificates).

The EBITDA of the Waste Business Unit equalled 282 million euro (268 million euro at December 31, 2019).

Net of non-recurring items (+1 million euro in 2020; substantively null in 2019), the Business Unit's Ordinary EBITDA came to 281 million euro, up 13 million euro compared to the previous year.

Both the municipal waste treatment segment (+10 million euro compared to 2019) and the industrial waste segment (+5 million euro on the last year) made a positive contribution for the year, thanks to:

- the greater quantities of electricity produced;
- the positive trend of conferral prices (in particular municipal-like waste);
- the increase in paper sales price;
- the contribution of newly acquired plants through M&A transactions: the treatment lines of Electrometal, a company operating in the treatment and recovery of waste from different industrial processes acquired late 2019, the biomass-powered generation plant of Agritre acquired in February 2020 and, recently activated, the plastic recovery plant of Muggiano, activated in the second half of 2019.

These positive effects more than offset the reduction in margins due to the lower prices of sale of electricity produced by waste-to-energy plants, the reduction in quantities disposed of in other urban treatment plants and the higher costs of disposal, in particular of industrial waste.

A comparison with the previous year also shows the higher margins achieved in foreign job orders, activities relating to the construction of high-tech waste treatment plants, which have been incorporated into the Waste Business Unit, and a fall in results in the collection sector due to a contraction in commercial activities and higher costs, both of which are attributable to the management of the COVID-19 emergency.

EBITDA of the Networks & District Heating Business Unit amounted to 456 million euro (472 million euro as at December 31, 2019).

Net of non-recurring items (+7 million euro in 2020; +18 million in 2019), the EBITDA of the Business Unit came to 449 million euro, down 5 million euro on the previous year.



The change in margins is mainly due to the following:

- in the electricity and gas distribution networks (+3 million euro): lower operating costs and the consolidation of the AEB Group offset the lower revenues admitted for regulatory purposes;
- in the district heating segment (-10 million euro): negative energy scenario that characterized the current year;
- in the water cycle (+4 million euro): higher revenues due to the recent tariff increases approved by the Authority;
- in the Smart City segment (-2 million euro): conclusion of activities started in previous years relating to the construction of infrastructure for the laying of fibre optic cables.

**“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.

“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, Sermede 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.

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.

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, which was also impacted by the effects of the COVID-19 pandemic.

As a result of these changes **“Net operating income”** amounted to 550 million euro (687 million euro at December 31, 2019).

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.

**“Net financial balance”** amounted to 81 million euro (114 million euro at December 31, 2019), representing a decrease of 33 million euro. This improvement was mainly due to refinancing of matured bonds at lower rates. In 2019, the item also included the total costs incurred for the early settlement of the existing bond at the Talesun Group.

The **“Affiliates”** had a zero balance at December 31, 2020, while it was positive for 4 million euro in the previous year and was mainly attributable to the positive valuation of the shareholding held by the LGH Group in Asm Codogno.

**“Income taxes”** for the year amounted to 99 million euro (189 million euro at December 31, 2019). This item includes positive taxes of 51 million euro among the tax differences from prior years due to the deductibility of the loss on the sale of the investment in EPCG.

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.

The **“Group result of the year”**, after the minorities of 4 million euro were deducted, was positive and amounted to 364 million euro (positive for 389 million euro at December 31, 2019).

### Balance sheet and financial position

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 in anticipation of the exercise of the put option, signed on November 23, 2020, on the entire investment.



millions of euro	12 31 2020	12 31 2019	Changes
<b>EMPLOYED CAPITAL</b>			
<b>Net fixed assets</b>	<b>7,067</b>	<b>6,470</b>	<b>597</b>
- Tangible assets	5,162	4,869	293
- Intangible assets	2,737	2,379	358
- Shareholdings and other non-current financial assets (*)	32	45	(13)
- Other non-current assets/liabilities (*)	(99)	(117)	18
- Deferred tax assets/liabilities	265	277	(12)
- Provisions for risks, charges and liabilities for landfills	(752)	(676)	(76)
- Employee benefits	(278)	(307)	(29)
of which with counter-entry to equity	(94)	(114)	
<b>Net Working Capital and Other current assets/liabilities</b>	<b>507</b>	<b>335</b>	<b>172</b>
<b>Net Working Capital:</b>	<b>617</b>	<b>555</b>	<b>62</b>
- Inventories	139	184	(45)
- Trade receivables	2,030	1,852	178
- Trade payables	(1,552)	(1,481)	(71)
<b>Other current assets/liabilities:</b>	<b>(110)</b>	<b>(220)</b>	<b>110</b>
- Other current assets/liabilities (*)	(181)	(277)	96
- Current tax assets/tax liabilities	71	57	14
of which with counter-entry to equity	7	(21)	
<b>Non current assets held for sale (*)</b>	<b>14</b>	<b>-</b>	<b>14</b>
of which with counter-entry to equity	-	-	
<b>TOTAL EMPLOYED CAPITAL</b>	<b>7,588</b>	<b>6,805</b>	<b>783</b>
<b>SOURCES OF FUNDS</b>			
<b>Equity</b>	<b>4,116</b>	<b>3,651</b>	<b>465</b>
Total financial position beyond one year	3,907	3,294	613
Total financial position within one year	(435)	(140)	(295)
<b>Total Net Financial Position</b>	<b>3,472</b>	<b>3,154</b>	<b>318</b>
of which with counter-entry to equity	31	24	
<b>TOTAL SOURCES</b>	<b>7,588</b>	<b>6,805</b>	<b>783</b>

(\*) Excluding balances included in the net financial position.

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## Net fixed capital

**Net fixed capital** amounted to 7,067 million euro, up 597 million euro compared to December 31, 2019.

Changes are detailed below:

- Tangible assets increased by 293 million euro due to:
  - investments made for 451 million euro due to interventions on waste treatment and waste-to-energy plants, on thermoelectric and hydroelectric plants and on renewable source energy plants for 210 million euro, to the development and maintenance of electricity distribution plants, the expansion and reconstruction of the medium and low voltage network, and the installation of new electronic meters for 110 million euro, the development of district heating networks for 50 million euro, the purchase of movable means to collect waste and other equipment for 28 million euro, investments focussed on developing the energy efficiency plan for 24 million euro, interventions on the optic fibre and gas transport network for 14 million euro and interventions on buildings for 15 million euro;
  - first-time consolidation of acquisitions in the year, accounting for an increase of 192 million euro;
  - 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 depreciation charge for the year;
- Intangible assets increased by 358 million euro on December 31, 2019, due to:
  - investments made for 287 million euro due to the implementation of computer systems for 110 million euro, plant development and maintenance work in the gas distribution area for 98 million euro, works on the water transport and distribution network, sewers and purification plants for 69 million euro, other residual investments for 10 million euro;
  - first-time consolidation of acquisitions in the year, accounting for an increase of 248 million euro;
  - 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 depreciation charge for the year;
- Shareholdings and Other non-current Financial Assets amounted to 32 million euro, down 13 million euro compared to December 31, 2019 following the change in the consolidation method of ASM Energia S.p.A. and of Gelsia Ambiente S.r.l., to the reclassification in “Non-current assets held for sale” of the equity investment in Ge.S.I. S.r.l., partly offset by investments made in innovative start-ups through Corporate Venture Capital projects and by the collection of dividends from associated companies;
- Other non-current Assets and Liabilities increased by 18 million euro due to the short-term reclassification of certain deferred price payables arising from acquisitions made in the photovoltaic sector; net of other decreases of 2 million euro;
- Prepaid tax assets amounted to 265 million euro (277 million euro at December 31, 2019) and showed a decrease of 12 million euro;
- the Provisions for risks, charges and liabilities for landfills rise, net of the effects of the first-time consolidations for 25 million euro, by 51 million euro. The change in the year is the net result of uses in the year (51 million euro), due to decommissioning and landfill costs (28 million euro), the settlement of legal disputes (3 million euro) and additional uses (20 million euro). There was also an increase deriving from net provisions during the year for 64 million euro and other increases for 38 million euro, following some new appraisals as well as the update of existing appraisals and the discounting rates used to estimate future costs for dismantling and restoration;
- Employee benefits decreased by 29 million euro, due to disbursements during the year and payments to pension funds and actuarial valuations, net of allocations during the year.

## Net Working Capital and Other current assets/liabilities

The **“Net Working Capital”**, defined as the algebraic sum of trade receivables, closing inventories and trade payables, amounted to 617 million euro, up 62 million euro compared to December 31, 2019. Comments on the main items are given below:

- “Inventories” amounted to 139 million euro (184 million euro at December 31, 2019), net of the related obsolescence provision for 20 million euro, up 2 million euro compared to December 31, 2019. The decrease is due to the combined effect of the decrease of 41 million euro in fuel stocks (gas and diesel) and the decrease in coal stocks held by third parties for 11 million euro and other decreases, equal to 1 million euro, relating to stock of materials and trading white certificates. The first-time consolidation effects of the year amounted to 8 million euro;
- “Trade receivables” amounted to 2,030 million euro (1,852 million euro at December 31, 2019), with an increase of 178 million euro, of which 85 million euro due to the first-time consolidation effects of the 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;
- “Trade payables” amounted to 1,552 million euro, an increase of 71 million euro.
- “Other current assets/liabilities” evidenced a net decrease of 110 million euro, due to:
  - net increase in receivables from Cassa per i Servizi Energetici e Ambientali for 67 million euro;
  - net increase of 60 million euro in tax receivables for VAT, excise duties and other indirect taxes;
  - net increase of 32 million euro in derivative assets, reflecting a change in fair value at the end of the year and in the quantities hedged;
  - increase in other current liabilities due to the reclassification to current liabilities of certain deferred price payables arising from acquisitions made in the photovoltaic sector, amounting to 19 million euro;
  - decrease in receivables for advances to suppliers, which at the end of December 2019 included advances for the purchase of coal, of 12 million euro;
  - increase in payables to personnel for 11 million euro;
  - other decreases amounting to 7 million euro.

**“Non-current assets held for sale”** were positive and amounted to 14 million euro at December 31, 2020 and refer for 11 million euro to the reclassification in accordance with IFRS 5 of the assets and liabilities of Consul System S.p.A., as a result of the sale of 26% of the shares, which was finalized at the end of January 2021 and for 3 million euro to the reclassification of the equity investment in Ge.S.I. S.r.l., following the exercise of the option to sell the equity investment.

Consolidated **“Employed capital”** at December 31, 2020 amounted to 7,588 million euro and was financed by Equity for 4,116 million euro and the Net Financial Position for 3,472 million euro.

## Equity

**“Equity”** amounted to 4,116 million euro and showed a positive change for a total of 465 million euro. The positive change was partly due to the year result for 368 million euro (364 million euro pertaining to the Group and 4 million euro to minorities), offset by the distribution of dividends for 241 million euro. There was also a positive valuation of cash flow hedge derivatives and IAS 19 reserves for 32 million euro. The positive effect on the Group’s equity deriving from the change in the consolidation scope was 321 million euro, of which 217 million euro pertain to minority shareholders.

The **“Consolidated Net Financial Position”** at December 31, 2020 amounted to 3,472 million euro (3,154 million euro as at end 2019). Excluding the year changes in Group perimeter, the Net Financial Position came to 3,327 million euro, evidencing a cash absorption for 173 million euro versus December 31, 2019, after capex for 738 million euros and dividends for 241 million euro.

## 5 Consolidated results and report on operations

millions of euro	01 12 2020 12 31 2020	01 12 2019 12 31 2019
<b>NET FINANCIAL POSITION AT THE BEGINNING OF THE YEAR</b>	<b>(3,154)</b>	<b>(3,022)</b>
First-time consolidation effect	(85)	(3)
First-time application of IFRS 16	-	(109)
New contracts IFRS 16	(20)	(21)
Net result	368	393
Taxes for the year	99	189
Net interest of the year	81	114
Gains/losses for the year	4	-
Depreciation/amortization	555	502
Write-downs/disposals of tangible and intangible assets	16	18
Net allocations for the year	94	36
Affiliates	-	(4)
Impairment of assets held for sale	-	-
Net interest paid	(80)	(100)
Net taxes paid	(123)	(235)
Dividends paid	(256)	(232)
Change in receivables from customers	(123)	(76)
Change in payables to suppliers	25	61
Change in inventories	53	3
Other changes in net working capital	(116)	31
<b>Cash flow from operating activities</b>	<b>597</b>	<b>700</b>
Investments in tangible and intangible assets	(738)	(627)
Investments in shareholdings and securities	(139)	(56)
Contribution of first consolidation of acquisitions on cash and cash equivalents	36	3
Disposals of fixed assets and shareholdings	38	-
Dividends received from shareholdings	1	-
<b>Net cash flows from investment activities</b>	<b>(802)</b>	<b>(680)</b>
Free cash flow	(205)	20
<b>Other changes</b>	<b>(1)</b>	<b>(14)</b>
Changes in financial assets/liabilities with counter-entry to equity	(7)	(5)
<b>NET FINANCIAL POSITION AT THE END OF THE YEAR</b>	<b>(3,472)</b>	<b>(3,154)</b>

## 5.2 Significant events during the year

### Industrial partnership between A2A S.p.A. and Ambiente Energia Brianza S.p.A.

On January 27, 2020, the Boards of Directors of A2A S.p.A. and Ambiente Energia Brianza S.p.A. (AEB) have mapped out the path for the feasibility study of the implementation of the territorial partnership project, which involves the two multi-utility companies of Lombardy, laying the foundations for the creation of a new industrial entity following the Multi-utility of the Territories model.

The A2A and AEB Groups, continuing the process announced on October 17, 2019 and December 20, 2019, have successfully completed the study phase of the industrial partnership with approval by the Boards of Directors of Unareti S.p.A. (a 100% subsidiary of A2A) and of AEB S.p.A. of a business combination project to be implemented through the partial demerger of Unareti in favour of the beneficiary AEB. This project was also approved by the respective Shareholders' Meetings on April 30, 2020.

On June 26, 2020, the Milan Regional Administrative Court filed two orders suspending the effectiveness of the resolution of April 20, 2020 by which the Municipality of Seregno had approved the territorial aggregation transaction and set the hearing on the matter for December 2, 2020. The claimant pointed out alleged flaws in the transaction and requested the Court to suspend the effectiveness of the Municipality's resolution, in order to prevent the conclusion of the transaction already approved by the shareholders' meetings of the companies. The companies will appeal to the State Council to confirm the legitimacy of the transaction.

On October 22, 2020, the Antitrust Authority communicated its authorization of the industrial integration between A2A S.p.A. and Ambiente Energia Brianza S.p.A. - AEB (the multi-utility company of Brianza, with public shareholders consisting of numerous municipalities in the area, and with the Municipality of Seregno as leader), subject to the implementation of certain commitments.

Following this authorization, on October 27, 2020, A2A and Ambiente Energia Brianza (AEB) implemented the territorial industrial integration process, signing the deed of demerger to complete the transaction, with effect expected November 1, 2020.

AEB has seen A2A join its share capital with a 34% stake, while the member municipalities will retain the majority of the shares, with the Municipality of Seregno playing the lead role with approximately 37%.

The merger will make it possible to reinforce the competitiveness and territorial vocation of AEB, ensuring sustainable, long-term growth. Concrete and significant industrial benefits are expected: strengthening of the competitive capacity of AEB, better access to credit and reinforced investment capacity, commercial and operational synergies, sharing of platforms and know-how for new innovative services.

The Business Plan defined jointly by AEB and A2A, which is an integral part of the agreements, will identify the main drivers for the organic development of the businesses it oversees (public lighting and the sale of electricity and gas), the awarding of gas tenders in strategic areas and the development of new businesses (energy efficiency, smart cities and e-mobility). The Plan sets important targets with investments of more than 300 million euro over five years, of which more than 190 million euro in the territories of the member municipalities. EBITDA for AEB will be around 50 million euro, while in terms of governance, the project will ensure that the public shareholders have the right to appoint the company's Chair and Deputy Chair; A2A will have a management and coordination role over AEB, as well as appointing the CEO.

With Measure no. 28406 of October 20, 2020, closing Proceedings C12294 - A2A/AEB, the AGCM resolved the clearance, subject to commitments, of the transaction for the purchase of AEB by A2A S.p.A..

### Agreement between Italgas and A2A for the reciprocal disposal of certain assets in order to strengthen their core businesses

On January 31, 2020, the transaction announced in October 2019 between Italgas Reti (Italgas Group) and A2A Calore & Servizi (A2A Group) was completed following the occurrence of the conditions precedent.

In particular, Italgas Reti sold to A2A Calore & Servizi all the district heating activities managed in the municipality of Cologno Monzese (Milan); at the same time, Unareti sold to Italgas Reti the natural gas distribution activities managed in seven municipalities belonging to ATEM Alessandria 4.

The district heating plant in Cologno Monzese consists of a distribution network of over 8 kilometres serving 52 heat exchange substations with heat sales of approximately 26.1 GWh.

The seven gas distribution networks in the municipalities of Castelnuovo Scrivia, Pecetto di Valenza, Bassignana, Rivarone, Guazzora, Montecastello and Pietra Marazzi cover a total of over 140 kilometres and serve about 4,200 users.

### A2A S.p.A.: Ascopiave S.p.A. transaction

On January 31, 2020, A2A S.p.A. acquired 9,758,767 shares of Ascopiave S.p.A. equal to 4.16% of the share capital.

On June 18, 2020, following the failure of the strategic assumptions on which the transaction was based, A2A sold 4,688,231 shares in Ascopiave S.p.A. at a price of 3.905 euro each, equal to 2% of the share capital. The A2A Group also exercised its right of withdrawal for the remaining 2.16% held.

### LGH acquires the biomass plant Agritre

On February 27, 2020, Linea Group Holding S.p.A. signed the agreement for the acquisition of the biomass powered generation plant Agritre, located in Sant'Agata di Puglia (Foggia).

The plant, which has an installed capacity of 25.2 MW and is one of the largest biomass power plants in Italy, is powered exclusively by solid biomass of virgin vegetable origin represented mainly by cereal straw, the main agricultural by-product available in the province of Foggia, as well as tree pruning and other agroforestry residues in the area. The plant is able to meet the energy needs of over 46,000 families, bringing benefits to the environment and the local economy; electricity production is about 184,000 MWh per year.

### A2A Group: 2019 results approved

On March 19, 2020, the Board of Directors of A2A S.p.A. approved the drafts of the financial statements and of the consolidated annual financial report at December 31, 2019.

Revenues increased to 7.3 billion euro, an increase of 13% over the previous year.

Gross operating profit and net income increased, respectively to 1,234 million euro (in line with the previous year) and 389 million euro (+13% compared to 2018).

Investments grew sharply to 627 million euro, up 25% compared to the previous year with a Net Financial Position of 3,154 million euro. The NFP/EBITDA ratio was 2.56x

The Board of Directors proposed to the Shareholders' Meeting a dividend of 0.0775 euro per share up 10.7% compared to the previous year.

### A2A will reduce greenhouse gas emissions by 46% by 2030

On March 26, 2020, the A2A Group was the first multi-utility in Italy to have obtained validation of the emissions target by the Science Based Targets initiative (SBTi). This initiative that stems from the collaboration between CDP (Carbon Disclosure Project), the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) to verify the alignment of the decarbonisation targets of companies with the indications of the Paris Agreement (COP21).

The decarbonisation path foresees a 46% reduction in direct emissions (Scope1) of greenhouse gases per kilowatt hour produced by 2030, compared to 2017.



The objective is based on the development of new renewable capacity of at least 1.6 GW by 2030, the optimization of gas-fired combined cycle plants and the decommissioning and conversion of conventional coal- and oil-fired power plants.

The commitments also include a 100% reduction in Scope 2 emissions by 2024, and a 20% reduction in indirect Scope 3 emissions by 2030 linked to the purchase of fuels for its own plants and gas sales to end customers.

## A2A accelerates further on the decarbonisation path

On April 16, 2020, the A2A Group announced that it had speeded up the decarbonisation process of the energy system, immediately abandoning the use of coal at the Lamarmora power station in Brescia.

This important decision will make 2020/2021 the first coal-free thermal season well ahead of the indications of the MiSE Integrated National Energy and Climate Plan, which called for the exit from coal in Italy by 2025.

The farewell to coal is part of the 105 million euro investment plan launched to replace the heat produced by the Lamarmora power plant using fossil fuels (i.e. coal and gas) with greener sources and to improve environmental performance overall.

The main actions of the plan include the following investments at the Lamarmora power plant: thermal storage tanks for district heating, solar field, DeNox upgrading and heat recovery from waste-to-energy fumes.

The investments currently underway for the Lamarmora power plant and the waste-to-energy plant are in addition to the 140 million euro allocated between 2005 and 2017 for the continuous updating of the Brescia energy system.

## ENI and A2A: Partnership for industrial waste management

Eni, through the environmental company Eni Rewind, and A2A Ambiente have signed a Memorandum of Understanding as part of best practices in circular economy for the initiation of a collaboration for the management of special industrial waste, process optimization and the identification of innovative end-to-end plant solutions.

Following the successful completion of the activities provided for in the agreement, Eni Rewind and A2A Ambiente will evaluate a plan of joint initiatives in the industrial waste sector aimed at remedying the current operating and infrastructure deficiencies that characterize the Italian and European context.

## A2A S.p.A.: Ordinary Shareholders' Meeting

On May 13, 2020, the ordinary Shareholders' Meeting of A2A S.p.A. approved the 2019 financial statements.

The Board of Directors' proposal to distribute a dividend per ordinary share of 0.0775 euro was also approved.

The Board of Directors consisting of the following 12 members was also appointed for 3 years using the voting list system:

Marco Emilio Angelo Patuano - Chair; Giovanni Comboni - Vice Chair; Renato Mazzoncini; Federico Maurizio d'Andrea; Fabio Lavini; Stefania Bariatti; Maria Grazia Speranza; Gaudiana Giusti and Christine Perrotti (taken from the list submitted jointly by the majority shareholders, Municipality of Brescia and Municipality of Milan, owners of a total shareholding equal to about 50.000000112% of the share capital) Vincenzo Cariello, Secondina Giulia Ravera and Luigi De Paoli (taken from the list submitted jointly by a group of minority shareholders consisting of asset management companies and institutional investors, owners of a total shareholding equal to about 2.33325% of the share capital).

Appointed the following Board of Statutory Auditors of 3 standing members and 2 substitute members for a term of three years using the voting list system:

Chiara Segala - Standing Auditor; Maurizio Leonardo Lombardi - Standing Auditor and Antonio Passantino - Substitute Auditor (taken from the list jointly submitted by the majority shareholders Municipality of Brescia and Municipality of Milan, owners of a total shareholding equal to about 50.000000112% of the share capital); Giacinto Gaetano Sarubbi - Chair and Patrizia Tettamanzi - Substitute Auditor (taken from the list jointly submitted by a group of minority shareholders consisting of asset management companies and institutional investors, owners of a total shareholding equal to about 2.33325% of the share capital).

## **A2A Group: Termination of the employment relationship with Luca Valerio Camerano**

On May 14, 2020, A2A S.p.A. announced that it had reached an agreement for the consensual termination of the employment relationship with Luca Valerio Camerano, effective May 31, 2020. In the context of this agreement, Mr. Camerano has renounced the role of General Manager and any delegation and power conferred on him as of May 14, 2020.

## **A2A S.p.A.: Board of Directors**

Milan, May 14, 2020 - The Board of Directors of A2A S.p.A. appointed by the Shareholders' Meeting of May 13, 2020 met today for the first time under the chairmanship of Marco Emilio Angelo Patuano. The Board appointed Renato Mazzoncini as Chief Executive Officer and General Manager of the Company.

The Board entrusted the Chairman, in coordination with the Chief Executive Officer, as far as the latter is concerned, with the task of handling institutional relations and related external relations, as well as promoting extraordinary territorial aggregation operations. The Chief Executive Officer and General Manager were granted extensive powers for the ordinary management and for the preparation of proposals for extraordinary operations of the Company.

The Board of Directors also set up the following three committees, appointing their members as follows:

- Audit and Risk Committee: Luigi De Paoli (Chair), Federico Maurizio d'Andrea, Gaudiana Giusti and Christine Perrotti;
- Appointments and Remuneration Committee: Secondina Giulia Ravera (Chair), Stefania Bariatti and Giovanni Comboni;
- Sustainability and Territory Committee: Marco Emilio Angelo Patuano (Chair), Vincenzo Cariello, Fabio Lavini and Maria Grazia Speranza.

## **A2A S.p.A.: framework resolution for bond issues**

On June 18, 2020, the Board of Directors of A2A S.p.A. passed a framework resolution authorizing the issue of one or more non-subordinated, unsecured and non-convertible bonds under its 4 billion euro EMTN Program set up in 2012 and currently being renewed, up to a total maximum of 1 billion euro, by April 30, 2023.

The bond issues, which may, where appropriate, also be green bonds or sustainability linked bonds, will be used, among other things, to finance and/or refinance the Group's investments and/or to maintain suitable levels of liquidity, and for one or more liability management transactions.

## **A2A Group: Appointment of the top management of Banco dell'energia Onlus**

On July 3, 2020 the Board of Promoters of Banco dell'energia Onlus met and appointed Marco Patuano, Chair and Renato Mazzoncini, Director.

Banco dell'energia Onlus is a non-profit organization, promoted by A2A and the Aem and ASM Foundations, with the aim of raising funds to support families in economic and social difficulties.

## **A2A S.p.A: Standard Ethics confirmed EE rating**

Standard Ethics, an independent rating agency that measures the sustainability of companies, has awarded A2A the EE rating, which corresponds to strong, for the second consecutive year.

In fact, according to Standard Ethics, A2A is among the European companies in the sector that best interpret the decarbonisation process, as outlined by the Paris Agreement on the containment of climate change and subsequent European environmental policies.

In addition, the agency reports that the Group's emission reduction targets appear ambitious and well monitored and the entire ESG (Environmental, Social and Governance) reporting is assessed as aligned with European good practice; the Group's long-term vision is positive.

## A2A presents its territorial sustainability reports for the 2019 financial year

During the second half of 2020, A2A presented its territorial sustainability reports for the 2019 financial year.

On July 28, 2020, the Brescia Sustainability Report was presented: it shows, among other contributions, a value on the territory distributed of 388 million euro, of which 179 million euro spent on supplies and 127 million euro paid as labour costs.

On September 22, 2020, it was the turn of the Bergamo sustainability report, which shows, among other contributions, 130 million euro in supplies and 34 million euro in labour costs.

On October 28, 2020, the Group presented the Friuli Venezia Giulia territorial sustainability report with a value distributed over the territory of 25 million euro, of which 6 million euro for the maintenance and development of plants and 10 million euro orders from local suppliers.

On November 20, 2020, the Valtellina and Valchiavenna territorial sustainability report was presented: 38 million euro distributed in the territory, of which 6 million euro for the maintenance and development of the plants and 1.8 million euro orders from local suppliers.

## A2A, launch of the first investments of the Corporate Venture Capital fund dedicated to innovation

The first start-up chosen by A2A for its high innovation and growth potential is the British company Greyparrot.

Greyparrot has developed a computer vision-based solution that integrates artificial intelligence and data analytics: the software automatically identifies different types of waste and provides information on their composition. The start-up is already signing agreements with major international players in the sector and has also won "The Europas Awards 2020" for the category "Hottest Climate/GreenTech Start-up". Greyparrot, whose software is currently being tested at the A2A plastics sorting and treatment plant in Muggiano (MI), was chosen because it will offer the possibility of implementing digitalization and automation of waste cycle processes, further improving the efficiency of the collection and separation process.

Three more start-ups were selected in September 2020: Hades, Circular Materials and Siteflow.

Hades, a Swiss start-up linked to the University of Zurich, has developed a computer vision-based solution for the inspection of wastewater networks. Using an artificial intelligence model, it is able to identify and locate leaks, breaks and cracks along the network, enabling predictive maintenance and savings of up to 40% on repairs and upgrades.

Circular Materials, an Italian company based in Milan, has patented a technology for the removal of heavy and precious metals from industrial wastewater with a view to the circular economy. The plant developed by the start-up effectively recovers metals such as arsenic, cadmium, nickel, zinc, copper, mercury, gold, silver, etc. so that they are not dispersed into the environment and can once again generate value.

Finally, Siteflow, based in France, has developed software for the digitalization of maintenance processes in large production facilities. The solution improves shared operating standards for managing scheduled maintenance, producing audit documentation and enhancing a centralized digital database, while also promoting collaboration between various professionals.

The A2A Corporate Venture Capital programme was created at the end of 2019 with the participation of a number of partners such as 360 Capital, a venture capital fund, and the Politecnico di Milano, with the Poli360 fund, with leverage on the Technology Transfer Office and the Polihub incubator. The A2A CVC envisages investments of up to 70 million for start-ups operating in business areas that are strategic for the Group.

## A2A Group, the Council of State restores the award of the Milan Gas Tender

On September 7, 2020, the Council of State upheld the appeals filed in February 2020 by Unareti and the Municipality of Milan against the sentence of the Lombardy Regional Administrative Court of December 5, 2019, which had led to the annulment of the award to Unareti of the tender for the concession of the natural gas distribution service in the territorial area of "Milan 1 - City and Plant of Milan". The Council of State, on the one hand, rejected the legal and administrative elements that had led the Regional Administrative Court to exclude Unareti from the proceedings and, on the other hand, confirmed the assessments of the tender committee that had awarded the bid.

The concession, which lasts 12 years, has a total value of about 1.4 billion euro.

Unareti has planned a total of approximately 650 million euro in investments over the plan period, which will lead to an increase in the value of the RAB owned in relation to the Milan 1 ATEM (currently approximately 660 million euro) of approximately 180 million euro.

On February 18, 2021, 2i Rete Gas S.r.l. appealed to the Supreme Court to request ascertaining that the Council of State lacked jurisdiction, which issued sentence 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.

### **Snam and A2A: technological cooperation agreement to develop the role of hydrogen in electricity generation and distribution networks**

On September 25, 2020, Snam and A2A signed a memorandum of understanding for technological cooperation concerning the study of projects aimed at developing the use of hydrogen as part of the decarbonisation of the energy sector in Italy and the European Hydrogen Strategy.

The cooperation will focus primarily on the study, analysis and feasibility assessment of projects involving the conversion of A2A thermoelectric power plants from coal to natural gas, hydrogen or natural gas/hydrogen mixtures. The two companies will also study solutions aimed at retrofitting A2A existing combined cycle gas turbines for hydrogen or natural gas/hydrogen mixtures and initiatives aimed at producing, storing and transporting hydrogen from renewable sources and modifying A2A gas distribution infrastructure to make it "hydrogen ready".

### **Valtrompia wastewater treatment plant: new green and technologically advanced plant to be operational by 2021**

The new plant will be built in Concesio, in Dosso Boscone - a highly urbanized area - on the left bank of the Mella river and will serve several municipalities in the area.

The wastewater treatment plant has been designed with particular attention to integration into the existing landscape and minimizing environmental impact, and will be located under a prefabricated structure covered with a layer of natural greenery.

From a technological point of view, it will be a state-of-the-art plant: the purification process with membrane technology working in the field of ultrafiltration (MBR) provides one of the highest performance levels and also allows a considerable reduction in overall dimensions; the plant will have a surface area of approximately 14,500 m<sup>2</sup> (of which 9,000 m<sup>2</sup> will be covered) and will be equipped with technologies capable of eliminating odours and noise.

### **A2A and Suez: partnership for an industrial waste management system**

On October 6, 2020, the subsidiary A2A Ambiente - and Suez today signed a Memorandum of Understanding aimed at creating a player of excellence for the management of waste from the Italian production and industrial system.

The agreement provides for the definition of a new company, with joint ownership by the two industrial entities, able to combine assets, resources and strategic capabilities along the entire environmental sector value chain, with a total capacity of 300,000 tonnes of waste per year.

### **A2A acquires Agripower, an Italian biogas power generation company**

A2A, through its subsidiary Linea Group Holding (LGH), was awarded at auction the company Agripower S.r.l., an industrial company specialized in the development and management of power generation plants from biogas with headquarters in Zola Predosa (BO).

The award of the entire share capital of Agripower, at a value of 10.1 million euro, was part of the arrangement procedure with the Court of Bologna concerning SECI S.p.A., part of the Maccaferri Group.

On January 28, 2021, LGH filed the documents required by the award decree and paid the acquisition price. The Group is awaiting the decree of the Court of Bologna, bankruptcy section, for the actual transfer of 100% of the shares.

Agripower is one of the main Italian platforms for generating electricity from biogas, through the management of plants fuelled by renewable sources, in particular agricultural and agro-industrial residues. It owns 18 plants with a total installed capacity of about 18 MW, distributed in 9 regions in Northern and Central Italy and in Sardinia. In 2019, Agripower generated approximately 42.7 million euro in consolidated revenue and a consolidated EBITDA of 15.8 million euro.

With Measure no. 28498 of December 22, 2020, closing Proceedings C12339 - Linea Group Holding/Agripower, AGCM resolved the unconditional clearance of the transaction for the purchase of Agripower S.r.l. by LGH S.p.A..

## A2A successfully completed bond issue for 500 million euro

On October 21, 2020, A2A successfully completed the issue of a 500 million euro bond and 12-year maturity, intended exclusively for institutional investors as part of its Euro Medium Term Notes Program, last updated on July 28, 2020 (and integrated with a supplement on October 20, 2020).

The bonds were placed at an issue price of 99.471% and will have an annual yield of 0.671% and a coupon of 0.625%, with a spread of 85 basis points over the mid-swap reference rate. The coupon is the lowest ever obtained by Italian corporate issuers for bonds with a maturity of more than 10 years.

## Ardian and A2A: cooperation agreement for the development of green hydrogen

On November 26, 2020, Ardian (a private investment company) and A2A signed a Memorandum of Understanding for cooperation on developing the use of green hydrogen. The agreement will aim to identify potential areas of collaboration for the production of green hydrogen from renewable sources.

## A2A Energia grows in the safeguard service

On November 25, 2020, the subsidiary A2A Energia was awarded two lots in the tender to identify operators for the safeguards service for the years 2021 and 2022, for a total volume of around 700 GWh/year. The lots concern the regions of Lombardy (lot 2) and Tuscany, Marche, Sardinia (lot 4), with one lot managed in the two-year period 2019 and 2020 (Tuscany, Marche, Umbria). The allocation to A2A Energia corresponds to an associated turnover of approximately 140 million euro on an annual basis.

## A2A enters the wind power business: the first 8.2MW plant acquired in Campania

The A2A Group, through its subsidiary A2A Rinnovabili, has acquired a plant located in the municipality of Castelpagano (Benevento), for the production of energy from wind power.

The plant, equipped with four turbines, is able to generate 20.4 GWh of electricity, which is enough to meet the annual needs of more than 8,000 households. A2A chose this site as its first step into the wind energy sector given the excellent characteristics of the area, with a windiness that is reflected in a production of approximately 2,500 equivalent hours per year significantly above the national average.

## A2A and FNM: agreement for the production of green hydrogen

A2A and FNM have signed a Memorandum of Understanding to study and identify the best way of producing and supplying green hydrogen, deriving from renewable sources and the recovery of materials, to power the new trains on the Brescia-Iseo-Edolo line announced by FNM on November 26. The plan is to create Italy's first "Hydrogen Valley" in the Sebino and Valcamonica areas, equipping it with a fleet of hydrogen trains from 2023. The project, called H2iseO, in addition to the new trains that will replace the current diesel trains on the Brescia-Iseo-Edolo line operated by FERROVIENORD (a 100% subsidiary of FNM), also aims to build hydrogen production plants, initially intended for the new clean energy trains. Subsequently, by 2025, the plan is to extend the hydrogen solution to local public transport, with around 40 means operated in Valcamonica and the possibility of opening up to freight logistics.

## A2A: Financial calendar 2021

The 2021 financial calendar was announced on December 15, 2020:

- February 24, 2021: Board of Directors on preliminary consolidated results of 2020;
- March 18, 2021: Board of Directors for approval of the draft financial statements and the 2020 consolidated financial statements;
- April 29, 2021 (second call, if applicable, April 30, 2021): Ordinary Shareholders' Meeting for approval of the 2020 financial statements;
- May 13, 2021: Board of Directors for approval of financial reporting at March 31, 2021;
- July 30, 2021: Board of Directors for approval of the Half-Year Report at June 30, 2021;
- November 11, 2021: Board of Directors for approval of financial reporting at September 30, 2021.

Any dividend for 2020 may be paid from May 26, 2021, with ex-dividend date May 24, 2021 (record date May 25, 2021).

## A2A and LGH: merger proposal

A2A has received a request from LGH shareholders (representing a total of 42.5% of the LGH share capital) to start the process for a possible merger by incorporation of LGH into A2A. By virtue of said request, A2A must send a preliminary proposal for the merger of LGH into A2A within 90 working days of the last communication received, indicating the main terms of the proposal, which is in any case subject to the approval of the corporate bodies of the parties involved in the merger.



## 5.3 Significant events after December 31, 2020

### A2A enters Saxa Gres

On January 5, 2021, A2A acquired 27.7% of the capital of Saxa Gres, the first Circular Factory to make urban flooring (GRESTONE®) using an innovative “end-of-waste” process that allows the recovery of materials from the waste cycle.

The acquisition is expected to be completed by the end of the first quarter of 2021, subject to the fulfilment of certain conditions precedent.

### A2A presents its new 2030 business plan and repositions its brand to “Life Company”

On January 19, 2021, the A2A Group's Board of Directors examined and approved the 2021-2030 Strategic Plan, A2A's first Business Plan with a 10-year horizon. Sustainability guides the new strategy that focuses the Plan on two industrial macro-trends, circular economy and energy transition, to which all the Group's Business Areas, Energy, Waste and Networks, contribute.

Investments of 16 billion euro are planned, 90% in line with the UN Sustainable Development Goals (SDGs), including 6 billion euro in the circular economy and 10 billion euro in energy transition. In addition, a gross operating margin of 2.5 billion euro is expected at the end of the plan, with net profits growing by more than 8% on average per year and dividends increasing by 3% on average per year.

In line with the business plan presented, the A2A Group aims to define a new brand territory in which to operate: by dealing with energy, water and the environment and thanks to the circular use of natural resources, A2A is a “Life Company” that takes care of the conditions necessary for life and its quality.

### A2A acquires the largest merchant photovoltaic portfolio in Italy

On February 14, 2021, the A2A Group signed a binding agreement for the acquisition of the largest photovoltaic portfolio, without GSE incentives, including 9 plants located in Lazio and 8 in Sardinia. It has a nominal installed capacity of 173 MW and is currently operated by Octopus Renewables.

The plants will be able to guarantee an increase in installed capacity that will allow them to produce approximately 420 GWh per year of green energy, equal to the annual consumption of approximately 200,000 residential customers, thus avoiding the emission of a total of 2.5 million tonnes of CO<sub>2</sub> (over the entire life cycle of the plants).

The Octopus assets are added to the 111 MW photovoltaic portfolio already held by A2A: by virtue of this acquisition, A2A reaches 33% of energy produced from renewable sources.

The consideration for this transaction is 205 million euro, corresponding to an expected equity IRR of approximately 6%.

### A2A launches a new portal dedicated to Open Innovation

On February 17, 2021, the A2A Group made available a platform aimed at start-ups, companies, universities, research centres and all the players in the Italian and international innovation ecosystem, in which projects will be set up to test and jointly develop technological solutions to meet challenges such as energy transition and circular economy, decarbonisation, sustainable mobility, the water cycle and the creation of the cities of the future.

### A2A Group: preliminary results 2020

On February 24, 2021, A2A announced its preliminary results for the 2020 financial year. Ordinary Ebitda (Ordinary Gross Operating Profit) amounted to 1.19 billion euro, in line with the previous year. The decline in the Generation and Trading and Market Business Units, mainly due to a very weak and mitigated energy scenario, was followed by a sharp recovery in the fourth quarter.

## 5 Consolidated results and report on operations

Investments amounted to 738 million euro, up by 111 million euro from the already high levels recorded in 2019 (amounting to 627 million euro). This increase is mainly attributable to development interventions, in particular related to: the circular economy with the goal of recovering energy and materials in the Waste Business Unit; the electricity distribution network and the water cycle treatment plants in the Networks Business Unit and the information system upgrading project related to the protected energy market and energy efficiency in the Market Business Unit.

The Net financial position amounted to 3.47 billion euro (3.15 billion euro at December 31, 2019). The NFP/EBITDA ratio is 2.9x (2.6x in 2019).

## 5.4 Outlook for operations

The forecasts for 2021, as contained and indicated in the 2021-2030 Strategic Plan presented to the market on January 20, 2021, are based on the assumption that the year just begun will not be significantly affected by negative effects induced by a continuation and/or worsening of the COVID-19 health emergency and its implications on the micro and macroeconomic scenario at both international and national level, compared with the situation existing at the end of 2020. Consistently, no measures to support the economy and/or businesses were considered in the year.

In addition, the Group has hedged about 62% of its expected production for 2021, thus reducing the possible negative effects of a worsening of the energy scenario.

Based on these assumptions, Ordinary EBITDA is expected to be around 1.20 billion euro and Group Net Profit about 300 million euro for the current year.

Since it is not possible to foresee the procedures, extent and duration of any subsequent lockdowns and their related impacts, management has developed different scenarios with alternative risk assumptions for the forecasts for 2021 and has identified for each of them, also on the basis of the experience accumulated in 2020, the related mitigation actions aimed at protecting its economic and financial situation as much as possible.



## 5.5 Proposal for the allocation of net profit for the year ended December 31, 2020 and the distribution of a dividend

The annual financial statements of A2A S.p.A. for the year ended December 31, 2020 show a net profit of 545,729,183.00 euro.

If you are in agreement with the criteria used to prepare the financial statements, with the accounting principles and methods used in those statements and with the measurement criteria adopted, we invite you to approve:

the allocation of the net profit for the year of 545,729,183.00 euro as follows:

- 27,286,459.00 euro to the legal reserve;
- 248,734,708.00 euro as an ordinary dividend payable to shareholders to ensure a remuneration of 0.08 euro for each outstanding ordinary share;
- 269,708,016.00 euro to the extraordinary reserve.

By way of information, we bring to your attention that the number of shares currently outstanding is equal to 3,109,183,856 shares, taking account of the 23,721,421 treasury shares in the portfolio.

The dividend will be paid from May 26, 2021, with coupon detachment on May 24, 2021 and record date May 25, 2021.

The Board of Directors





# 6

## Analysis of main sectors of activities



6.1 Summary of 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.

Summary of  
results sector  
by sector

- Results sector  
by sector
- Generation  
and Trading  
Business Unit
- Market  
Business Unit
- Waste  
Business Unit
- Networks  
Business Unit
- Corporate

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.

Summary of  
results sector  
by sector

Results sector  
by sector

Generation  
and Trading  
Business Unit

Market  
Business Unit

Waste  
Business Unit

Networks  
Business Unit

Corporate

	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

## 6.2 Results sector by sector

### Generation and Trading Business Unit

The activity of the Generation and Trading Business Unit is related to the management of the generation plants portfolio<sup>1</sup> of the Group with the dual purpose of maximizing the availability and efficiency of the plants, minimizing operating and maintenance costs (O&M) and maximizing the profit deriving from the management of the energy portfolio through the purchase and sale of electricity and fuels (gaseous and non-gaseous) and environmental certificated on domestic and international wholesale markets. This Business Unit also includes the activity of trading on domestic and foreign markets of all energy commodities (gas, electricity, environmental certificates).

### Market Business Unit

The activities of the Market Business Unit are aimed at the retail sale of electricity and natural gas to customers in the free market and sale to customers served under protection scheme, the management of public lighting, traffic regulation systems, votive lamps. Furthermore, it deals with providing energy efficiency and electric mobility services.

### Waste Business Unit

The activities of the Waste Business Unit relates to the management of the integrated waste cycle, which ranges from collection and street sweeping to the treatment, disposal and recovery of materials and energy.

In particular, collection and street sweeping mainly refers to street cleaning and the collection of waste for transportation to its destination.

Instead, waste treatment is an activity that is carried out in dedicated centers to convert waste in order to make it suitable for the recovery of materials.

Disposal of urban and special waste in combustion plants or landfills ensures the possible recovery of energy through waste-to-energy or the use of biogas.

The Waste Business Unit includes the activities of the International Business Unit for the provision of know-how and technologies for the realization of waste pre-treatment plants.

### Networks Business Unit

The activities of the Networks & District Heating Business Unit mainly consists of the technical and operational management of networks for the distribution of electricity, the transport and distribution of natural gas and the management of the entire integrated water cycle (water captation, aqueduct management, water distribution, sewerage network management, purification). It is also aimed at the sale of heat and electricity produced by cogeneration plants (mostly owned by the Group), through district heating networks and ensures the operation and maintenance of cogeneration plants and district heating networks. Also included are the activities related to the management services for heating plants owned by third parties (heat management services).

The Networks and District Heating Business Unit also provides telecommunication services, in particular, services relating to the management of fixed and mobile phone lines and data transmission lines, as well as services related to the management and development of infrastructures supporting communications, and the implementation and management of video surveillance and access control systems. Finally, it designs solutions and applications aimed at creating new models of cities and territories and improving the quality of life of citizens.

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<sup>1</sup> Total installed capacity of 8.9 GW.



The following is a summary of the main economic data by sector:

## Results by sector 2020

millions of euro	Generation and Trading	Market	Waste	Networks	Corporate	Eliminations and adjustments	Total
Revenues from the sale of goods and services	3,713	2,583	1,084	1,070	242	(2,024)	6,668
Other revenue and income	115	15	27	31	22	(16)	194
<b>Total revenues</b>	<b>3,828</b>	<b>2,598</b>	<b>1,111</b>	<b>1,101</b>	<b>264</b>	<b>(2,040)</b>	<b>6,862</b>
Labour costs	86	56	326	106	131		705
<b>Gross Operating Margin - EBITDA</b>	<b>270</b>	<b>220</b>	<b>282</b>	<b>456</b>	<b>(24)</b>		<b>1,204</b>
Depreciation, amortization, provisions and write-downs	170	63	171	209	41		654
<b>Net Operating Income - EBIT</b>	<b>100</b>	<b>157</b>	<b>111</b>	<b>247</b>	<b>(65)</b>		<b>550</b>
<b>Capex</b>	<b>76</b>	<b>64</b>	<b>174</b>	<b>378</b>	<b>51</b>	<b>(5)</b>	<b>738</b>

Summary of  
results sector  
by sector

### Results sector by sector

Generation and Trading Business Unit

Market Business Unit

Waste Business Unit

Networks Business Unit

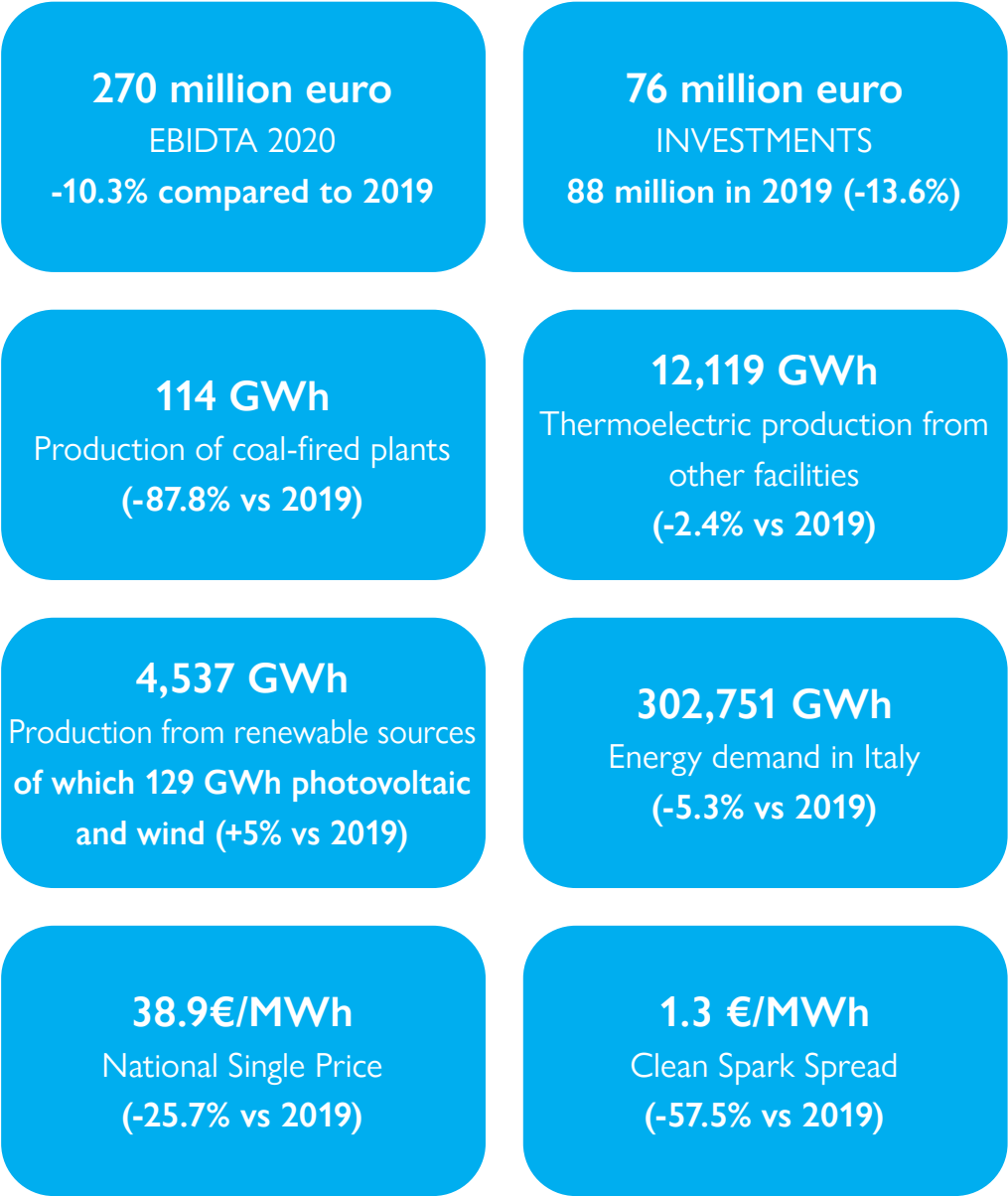
Corporate

## Results by sector 2019

millions of euro	Generation and Trading	Market	Waste	Networks	Corporate	Eliminations and adjustments	Total
Revenues from the sale of goods and services	4,273	2,701	1,037	1,106	221	(2,216)	7,122
Other revenue and income	126	23	13	37	23	(20)	202
<b>Total revenues</b>	<b>4,399</b>	<b>2,724</b>	<b>1,050</b>	<b>1,143</b>	<b>244</b>	<b>(2,236)</b>	<b>7,324</b>
Labour costs	88	55	312	109	136		700
<b>Gross Operating Margin - EBITDA</b>	<b>301</b>	<b>229</b>	<b>268</b>	<b>472</b>	<b>(36)</b>		<b>1,234</b>
Depreciation, amortization, provisions and write-downs	36	60	160	261	30		547
<b>Net Operating Income - EBIT</b>	<b>265</b>	<b>169</b>	<b>108</b>	<b>211</b>	<b>(66)</b>		<b>687</b>
<b>Capex</b>	<b>88</b>	<b>35</b>	<b>97</b>	<b>368</b>	<b>45</b>	<b>(6)</b>	<b>627</b>

### 6.3 Generation and Trading Business Unit

The following is a summary of the main quantitative and economic data relating to the Generation and Trading Business Unit.



## Operating figures

Net electricity production GWh	12 31 2020	12 31 2019	CHANGE	% 2020/2019
<b>Net thermoelectric production</b>	<b>12,233</b>	<b>13,353</b>	<b>(1,120)</b>	<b>(8.4%)</b>
- CCGT	11,461	11,685	(224)	(1.9%)
- Oil	658	732	(74)	(10.1%)
- Coal	114	936	(822)	(87.8%)
<b>Net production from Renewable Sources</b>	<b>4,537</b>	<b>4,742</b>	<b>(205)</b>	<b>(4.3%)</b>
- Hydroelectric	4,408	4,619	(211)	(4.6%)
- Photovoltaic	127	123	4	3.3%
- Wind	2	-	2	n.s.
<b>TOTAL NET PRODUCTION</b>	<b>16,770</b>	<b>18,095</b>	<b>(1,325)</b>	<b>(7.3%)</b>

The Group's electricity production was 16,770 GWh (18,095 GWh at December 31, 2019). About 85% of the decrease of 1,325 GWh was attributable to lower thermoelectric production and the rest to lower hydroelectric output.

Thermoelectric production in the year under review amounted to 12,233 GWh (13,353 GWh at December 31, 2019), with a negative change of 1,120 GWh, mainly attributable to the lower production of the Monfalcone coal plant penalized by an insufficiently remunerative price scenario.

The lower output of combined-cycle plants (-224 GWh) was linked to the reduction in energy demand recorded in Italy in the current year compared with the previous year (-5.3%), despite the decrease in imports (-15.6% import/export balance).

Production from renewable sources decreased by 4.3% compared with the previous year to 4,537 GWh: the lower output of the Calabria basins (-289 GWh) due to the low availability of water resources during the year was not fully offset by the higher hydroelectric output of plants in the Northern region (+78 GWh) and the contribution of new photovoltaic and wind power renewable sources (+6 GWh).

With regard to new renewable sources, in December 2020, new wind power capacity was acquired for a total of 8.2 MW.

## Economic figures

millions of euro	01 01 2020 12 31 2020	01 01 2019 12 31 2019	CHANGE	% 2020/2019
Revenues	3,828	4,399	(571)	(13.0%)
Gross Operating Margin - EBITDA	270	301	(31)	(10.3%)
% of Revenues	7.1%	6.8%		
Depreciation, amortization, provisions and write-downs	(170)	(36)	(134)	n.s.
Net Operating Income - EBIT	100	265	(165)	(62.3%)
% of Revenues	2.6%	6.0%		
Capex	76	88	(12)	(13.6%)
Labour costs	86	88	(2)	(2.3%)
FTE	1,063	1,092	(29)	(2.7%)

Revenues amounted to 3,828 million euro, down 571 million euro compared to the previous year. The change was brought about by the decline in prices of both electricity and gas and the lesser volumes sold of the industrial gas portfolio, partly offset by the growth of electricity volumes sold.

EBITDA of the Generation and Trading Business Unit amounted to 270 million euro, a decrease of 31 million euro compared to the previous year. Before non-recurring items (equal to +8 million euro in 2020 and +14 million euro in 2019), Ordinary EBITDA dropped by 25 million euro.

The change was due to:

- the negative effects, accentuated by the emergency situation suffered by the power generation sector, due to the severely penalizing scenario and demand decline;
- the reduction in hydroelectric production;
- the effective hedging strategy;
- the excellent performance booked on the ancillary services market ("MSD").

The downturn to margins recorded in the first nine months of the year by the Generation and Trading Business Unit, determined by the dynamics of consumption and prices, was strongly reduced in the fourth quarter of the year, both due to the lessening of the negative effects of the energy scenario and the excellent results achieved on the ancillary services market.

Depreciation, amortization, provisions and write-downs totalled 170 million euro (36 million euro at December 31, 2019). The change is mainly related to the reversal in 2019 - for 127 million euro - of the assets related to the 400 MW units of Mincio, Chivasso and Sermide as a result of the annual impairment test activities.

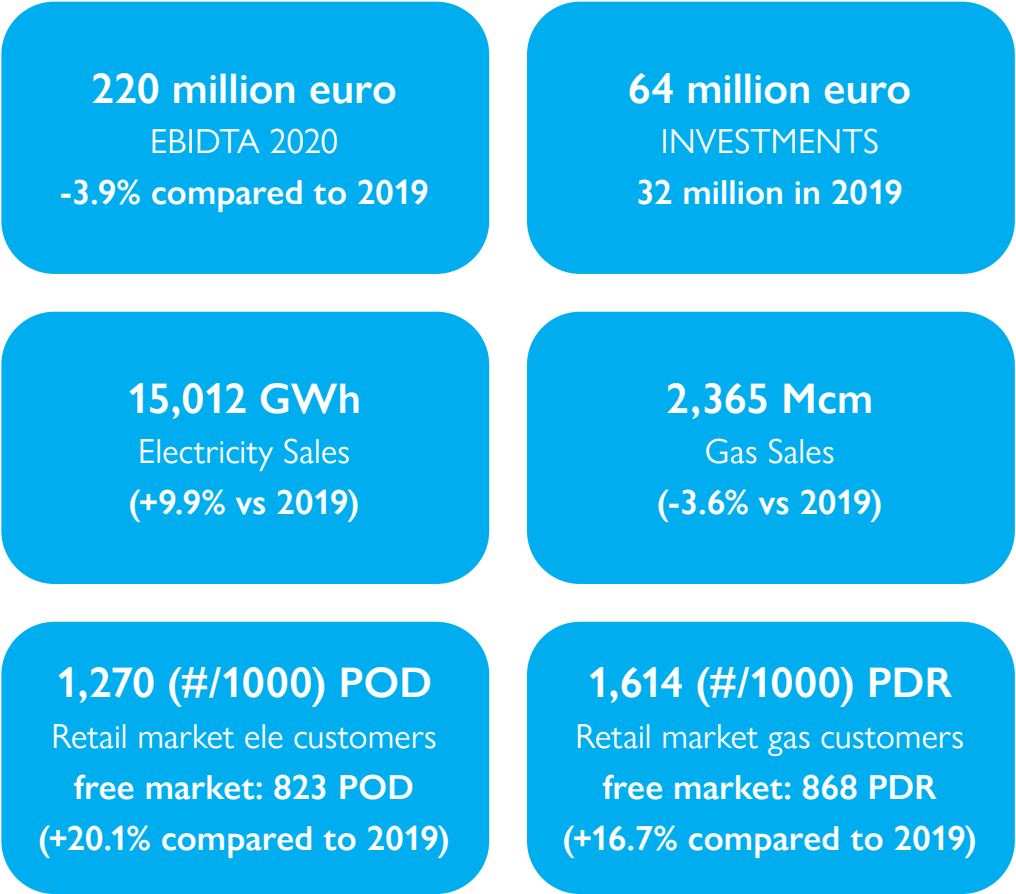
As a result of the above changes, net operating income amounted to 100 million euro (265 million euro at December 31, 2019).

In 2020, capex amounted to 76 million euro. These capex were 53 million euro for extraordinary maintenance interventions, of which 38 million euro on thermoelectric plants (18 million euro for a general overhaul of Group 1 at the Gissi power plant) and about 14 million euro for hydroelectric units. Development works were also carried out for a total of 19 million euro, mainly related to Brindisi plant (installation works on the synchronous compensators), photovoltaic plants (start of new plant construction) and ICT projects. Finally, in the period in question, activities were carried out for adjustments to standards for approximately 4 million euro.

In 2020, FTEs stood at 1,063 units (1,092 FTEs at December 31, 2019). The negative change is due to the continuation of the efficiency plan implemented for some hydroelectric power generation plants and to the postponement of hiring of personnel during the year.

## 6.4 Market Business Unit

The following is a summary of the main quantitative and economic data relating to the Market Business Unit.



Operating figures

Electricity	12 31 2020	12 31 2019	CHANGE	% 2020/2019
<b>Electricity Sales (GWh)</b>	<b>15,012</b>	<b>13,656</b>	<b>1,356</b>	<b>9.9%</b>
Electricity Sales Free Market	13,587	11,994	1,593	13.3%
Electricity Sales under Greater Protection Scheme	1,213	1,435	(222)	(15.5%)
Electricity Sales Safeguard Market	212	227	(15)	(6.6%)
<b>POD Electricity (#/1000)</b>	<b>1,270</b>	<b>1,174</b>	<b>96</b>	<b>8.2%</b>
POD Electricity Free Market	823	685	138	20.1%
POD Electricity under Greater Protection Scheme	447	489	(42)	(8.6%)

Gas	12 31 2020	12 31 2019	CHANGE	% 2020/2019
<b>Sales (Mcm)</b>	<b>2,365</b>	<b>2,454</b>	<b>(89)</b>	<b>(3.6%)</b>
Gas Sales Free Market (Mcm)	1,810	1,875	(65)	(3.5%)
Gas Sales under Greater Protection Scheme (Mcm)	555	579	(24)	(4.1%)
<b>PDR GAS (#/1000)</b>	<b>1,614</b>	<b>1,488</b>	<b>126</b>	<b>8.5%</b>
PDR Gas Free Market	868	744	124	16.7%
PDR Gas under Greater Protection Scheme	746	744	2	0.3%

The quantities are stated gross of losses.  
The data related to the POD and PDR does not include the numbers relating to large customers.

In 2020, the Market Business Unit recorded 15,012 GWh of electricity retail sales, up 9.9% on the previous year. Despite the slowdown in commercial activity and the reduction in unit consumption especially in the first half of the year as a result of the COVID-19 emergency, the increase recorded is mainly due to higher quantities sold to large customers in the free market.

Sales of gas to end markets totalled 2,365 million cubic metres (-3.6% compared with the previous year). The contraction in sales is due to lower demand as a result of the slowdown, with a particularly significant impact in the first half of the year; in economic activities due to the measures taken to limit the spread of COVID-19. On the other hand, the colder temperatures in the last months of 2020 compared to the previous year, cancelled out the negative effect of the weather recorded in the first quarter.

There was an increase in the number of mass-market free market customers, both in the electricity and gas segments (263 thousand more than at the end of 2019, of which 119 thousand relative to the AEB Group).

Economic figures

millions of euro	01 01 2020 12 31 2020	01 01 2019 12 31 2019	CHANGE	% 2020/2019
Revenues	2,598	2,724	(126)	(4.6%)
Gross Operating Margin - EBITDA	220	229	(9)	(3.9%)
% of Revenues	8.5%	8.4%		
Depreciation, amortization, provisions and write-downs	(63)	(60)	(3)	5.0%
Net Operating Income - EBIT	157	169	(12)	(7.1%)
% of Revenues	6.0%	6.2%		
Capex	64	35	29	82.9%
Labour costs	56	55	1	1.8%
FTE	917	864	53	6.1%



Revenues amounted to 2,598 million euro (2,724 million euro at December 31, 2019), down 4.6% following the decline in the unitary prices of gas and electricity and the lesser quantities of gas sold, as well as lesser revenues linked to the sale/management of energy efficiency certificates (EECs). This downturn has been partially offset by the growth in revenues due to the increase in quantities of electricity sold to key accounts.

EBITDA of the Market Business Unit equalled 220 million euro (229 million euro at December 31, 2019). Net of non-recurring items (+6 million euro in 2020; +22 million in 2019), the Ordinary EBITDA of the Business Unit came to 214 million euro, up 7 million euro on the previous year.

The change was due to:

- the increase in the number of customers in the free electricity and gas market: 263 thousand more in the free mass-market segment on end 2019, of which 119 thousand relative to the AEB Group;
- greater sales of key accounts in the electricity market;
- the greater unitary margins of sales in the free electricity and gas market, including the regulated components that cover marketing costs;
- lesser gas sales to key accounts;
- the lesser margins of the energy solutions business as a consequence of the decline in revenues from the sale/disposal of energy efficiency certificates (EECs) and the reclassification of Consul System amongst companies held for sale (in 2019, the company recorded approximately 4 million euro in EBITDA).

The contribution of the Market Business Unit to the fourth quarter results was significant thanks to the increase in the number of customers in the free electricity and gas market, also due to the change in the scope of consolidation of the AEB Group from November 1, 2020.

Moreover, in the last quarter of the year, there were no longer the temporary effects that had penalized the margins of the energy efficiency and public lighting activities in the first nine months - the postponement from May to November of the procurement by distributors obliged to cancel Energy Efficiency Certificates.

Depreciation, amortization, provisions and write-downs totalled 63 million euro (60 million euro at December 31, 2019).

As a result of the above changes, net operating income amounted to 157 million euro (169 million euro at December 31, 2019).

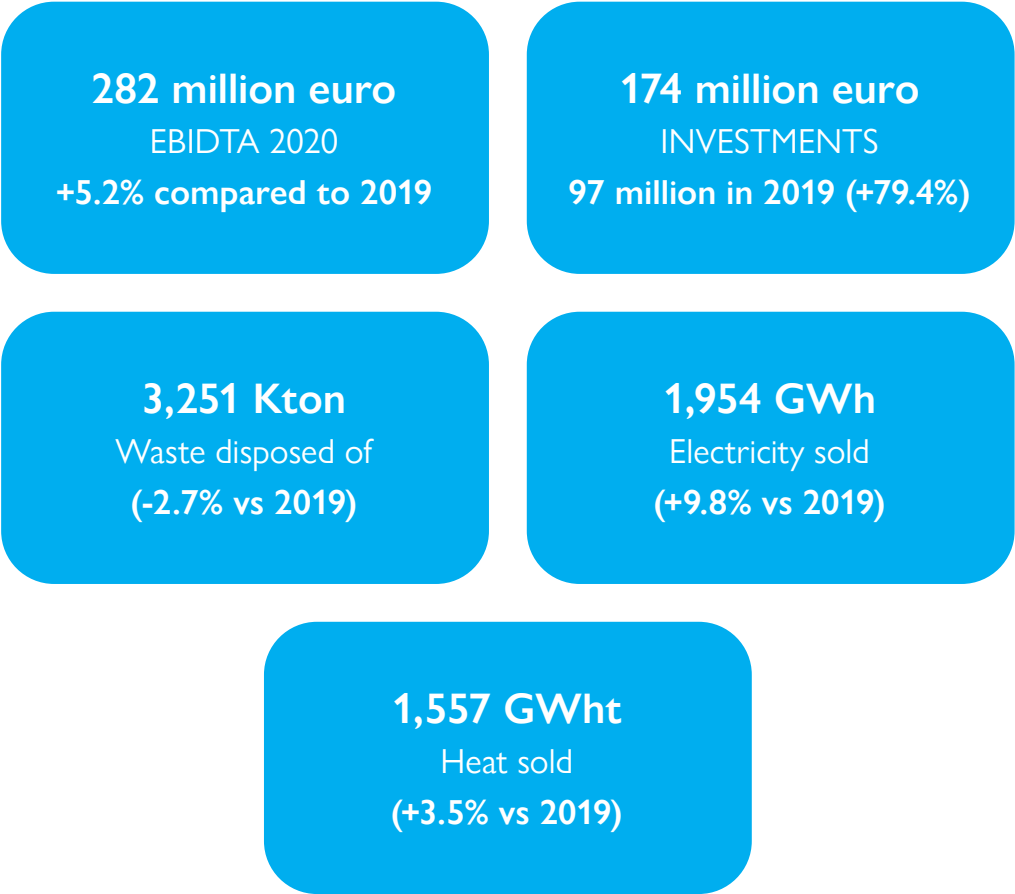
In 2020, the Market Business Unit capex amounted to 64 million euro. These capex were 38 million euro for the energy retail segment, mainly for evolutive maintenance and development of the hardware and software platforms, in particular for the update of IT systems in view of the superseding of the protected market and for the launch of NEN - the innovative full-digital start-up of the A2A Group set to sell electricity and gas to "digital" customers, featuring simplified management of users and a new invoicing method.

In addition, approximately 11 million euro was related to the development of the public lighting service and 15 million euro to electric mobility and energy efficiency projects.

In 2020, FTEs stood at 917 units (864 FTEs at December 31, 2019). The change is due to the higher number of people hired to strengthen, in line with development objectives, traditional and innovative areas of activity, such as the hiring of the new company NEN.

## 6.5 Waste Business Unit

The following is a summary of the main quantitative and economic data relating to the Waste Business Unit.



## Operating figures

	12 31 2020	12 31 2019	CHANGE	% 2020/2019
Waste collected (Kton)	1,660	1,708	(48)	(2.8%)
Residents served (#/1000)	4,117	3,634	483	13.3%
Electricity sold	1,954	1,780	174	9.8%
Heat sold (GWht)*	1,557	1,505	52	3.5%

(\*) quantities at the plant entrance.

In 2020, the quantity of waste collected, equal to 1,660 thousand tonnes, was down by 2.8% compared to the previous year: the contraction is linked to the slowdown in economic activities following the spread of COVID-19, especially in the City of Milan.

The quantities of electricity sold increased by 9.8% due to lower maintenance shutdowns of waste-to-energy plants; the quantities of heat sold were up 3.5% due to higher quantities required by the district heating segment.

Waste disposed of (kton)	12 31 2020	12 31 2019	CHANGE	% 2020/2019
<b>Urban waste disposal</b>	<b>3,040</b>	<b>3,138</b>	<b>(98)</b>	<b>(3.1%)</b>
- WTE	1,375	1,355	20	1.5%
- Landfill	2	37	(35)	(94.6%)
- Treatment plants	1,663	1,746	(83)	(4.8%)
<b>Industrial disposals</b>	<b>211</b>	<b>202</b>	<b>9</b>	<b>4.5%</b>
- WTE	66	71	(5)	(7.0%)
- Landfill	32	67	(35)	(52.2%)
- Treatment plants	113	64	49	76.6%
<b>TOTAL</b>	<b>3,251</b>	<b>3,340</b>	<b>(89)</b>	<b>(2.7%)</b>

The quantities reported are net of intra-group disposals.

Waste disposed of decreased by 2.7%. The change is mainly attributable to the reduction in the quantities disposed of in landfills and urban treatment plants, in part due to the slowdown in economic activity as a result of anti-COVID measures.

On the other hand, a positive contribution was provided by the growth in waste-to-energy plants due to greater plant availability - fewer days of downtime for maintenance - and the contribution of new plants.

## Economic figures

millions of euro	01 01 2020 12 31 2020	01 01 2019 12 31 2019	CHANGE	% 2020/2019
Revenues	1,111	1,050	61	5.8%
Gross Operating Margin - EBITDA	282	268	14	5.2%
% of Revenues	25.4%	25.5%		
Depreciation, amortization, provisions and write-downs	(171)	(160)	(11)	6.9%
Net Operating Income - EBIT	111	108	3	2.8%
% of Revenues	10.0%	10.3%		
Capex	174	97	77	79.4%
Labour costs	326	312	14	4.5%
FTE (*)	5,988	5,913	75	1.3%

(\*) Does not include units related to AEB.

The Waste Business Unit recorded revenues of 1,111 million euro in the period under review (1,050 million euro at December 31, 2019). The change is due not only to the greater revenues from municipal disposal of the Group's waste-to-energy plants, but also to changes in the consolidation perimeter (Electrometal and Agritre acquisitions and AEB consolidation).

The EBITDA of the Waste Business Unit equalled 282 million euro (268 million euro at December 31, 2019).

Net of non-recurring items (+1 million euro in 2020; substantively null in 2019), the Business Unit's Ordinary EBITDA came to 281 million euro, up 13 million euro compared to the previous year.

Both the municipal waste treatment segment (+10 million euro compared to 2019) and the industrial waste segment (+5 million euro on the last year) made a positive contribution for the year, thanks to:

- the greater quantities of electricity produced;
- the positive trend of conferral prices (in particular municipal-like waste);
- the increase in paper sales prices;
- the contribution of newly acquired plants through M&A transactions: the treatment lines of Electrometal, a company operating in the treatment and recovery of waste from different industrial processes acquired late 2019, the biomass-powered generation plant of Agritre acquired in February 2020 and, recently activated, the plastic recovery plant of Muggiano, activated in the second half of 2019.

These positive effects more than offset the reduction in margins due to the lower prices of sale of electricity produced by waste-to-energy plants, the reduction in quantities disposed of in other urban treatment plants and the higher costs of disposal, in particular of industrial waste.

A comparison with the previous year also shows the higher margins achieved in foreign job orders, activities relating to the construction of high-tech waste treatment plants, which have been incorporated into the Waste Business Unit in accordance with the A2A Group's new operating model, and a fall in results in the collection segment due to a contraction in commercial activities and higher costs, both of which are attributable to the management of the COVID-19 emergency.

Depreciation, amortization, provisions and write-downs equalled 171 million euro (160 million euro at December 31, 2019). The increase is mainly due to higher provisions for risks in 2020 and an increase in depreciation and amortization due to higher investments in the year under review.

As a result of these changes, Net Operating Income totalled 111 million euro (108 million euro at December 31, 2019).

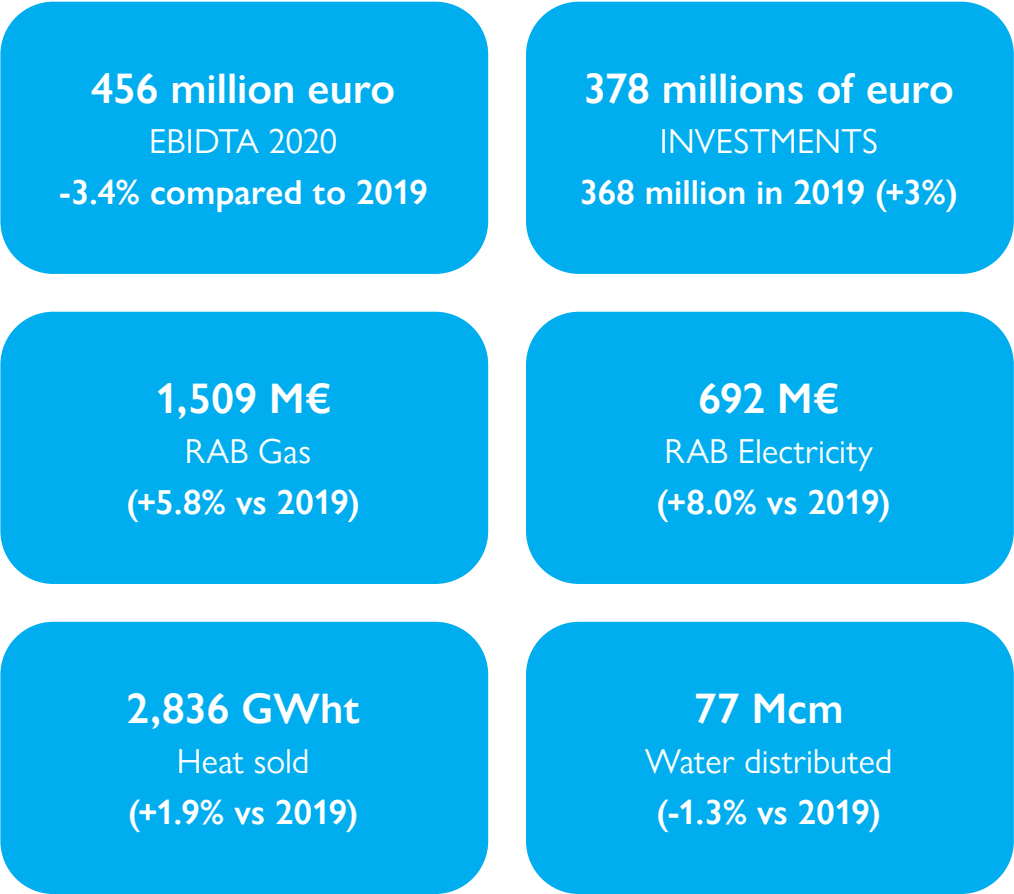
In 2020 capex amounted to 174 million euro and mainly regarded the development and maintenance of waste-to-energy plants for 106 million euro - of which 44 million euro relate to the development of the Parona waste-to-energy plant and 10 million euro to the new fumes purification line of the Brescia waste-to-energy plant, treatment plants for 38 million euro, landfills for 2 million euro and the purchase of vehicles, containers, operating systems and the restructuring of corporate buildings in the collection segment for a total of 28 million euro

In 2020, the FTE of the Waste Business Unit amounted to 5,988 units (5,913 FTE in 2019).

The change is related to the awarding of new tenders for the management of collection services and the acquisition of the new companies.

## 6.6 Networks Business Unit

The following is a summary of the main quantitative and economic data relating to the Networks Business Unit.



Operating figures

Networks

	12 31 2020	12 31 2019	CHANGE	% 2020/2019
Electricity distributed (GWh)	10,673	11,735	(1,062)	(9.0%)
Gas distributed (Mcm)	2,996	2,963	33	1.1%
Water distributed (Mcm)	77	78	(1)	(1.3%)
RAB Electricity (M€) (*)	692	641	51	8.0%
RAB Gas (M€) (*)	1,509	1,426	83	5.8%

(\*) Provisional figures, underlying the calculation of allowed revenues for the period.

The quantities of electricity and water distributed by the Networks Business Unit decreased by 9% and 1.3%, respectively, compared with the previous year, due mainly to a slowdown in economic activities caused by the measures adopted to counter the health emergency.

The quantities of gas distributed amounted to 2,996 Mcm, up 1.1% thanks to the incremental contribution of the AEB Group for the two winter months November-December.

The RAB in 2020 for both electricity and gas distribution services was up 8% and 5.8% respectively compared to 2019, standing at 692 million euro (Electricity) and 1,509 million euro (Gas). In addition to the growth in investments, this increase is due to the consolidation of the AEB Group from November 1, 2020.

Heat

	12 31 2020	12 31 2019	CHANGE	% 2020/2019
GWht				
<b>SOURCES</b>				
<b>Plants in:</b>	<b>1,369</b>	<b>1,362</b>	<b>7</b>	<b>0.5%</b>
- Lamarmora	375	410	(35)	(8.5%)
- Famagosta	81	71	10	14.1%
- Tecnocity	64	62	2	3.2%
- Other plants	849	819	30	3.7%
<b>Purchases from:</b>	<b>2,048</b>	<b>1,966</b>	<b>82</b>	<b>4.2%</b>
- Third parties	472	441	31	7.0%
- Other Business Units	1,576	1,525	51	3.3%
<b>TOTAL SOURCES</b>	<b>3,417</b>	<b>3,328</b>	<b>89</b>	<b>2.7%</b>
<b>USES</b>				
Sales to end customers	2,836	2,783	53	1.9%
Distribution losses	581	545	36	6.6%
<b>TOTAL USES</b>	<b>3,417</b>	<b>3,328</b>	<b>89</b>	<b>2.7%</b>
Electricity from cogeneration	298	316	(18)	(5.7%)

Note:

- The figures only refer to district heating. Sales relating to heat management are not included.
- Purchases include the quantities of heat purchased from the Waste Business Unit.

Heat sales by the Networks Business Unit in the year under review amounted to 2,836 GWht, an increase of 1.9% over the volumes sold in the previous year. The increase recorded, despite the negative effects of the anti-COVID measures, is attributable to the acquisition of new customers and the contribution of sales by the AEB Group in the last two months of the year.



## Economic figures

millions of euro	01 01 2020 12 31 2020	01 01 2019 12 31 2019	CHANGE	% 2020/2019
Revenues	1,101	1,143	(42)	(3.7%)
Gross Operating Margin - EBITDA	456	472	(16)	(3.4%)
% of Revenues	41.4%	41.3%		
Depreciation, amortization, provisions and write-downs	(209)	(260)	51	(19.6%)
Net Operating Income - EBIT	247	212	35	16.5%
% of Revenues	22.4%	18.5%		
Capex	378	368	10	2.7%
Labour costs	106	109	(3)	(2.8%)
FTE (*)	2,791	2,792	(1)	0.0%

(\*) Does not include units related to AEB.

2020 Networks Business Unit's revenues amounted to 1,101 million euro (1,143 million euro at December 31, 2019). The change is mainly due to lower tariff contributions for the cancellation of energy saving obligations (EECs) of distributors, the reduction in revenues from the heat segment brought about by the decline in prices during the year under review as compared with 2019 and the lower revenues of the Smart City segment.

EBITDA of the Networks & District Heating business unit amounted to 456 million euro (472 million euro at December 31, 2019).

Net of non-recurring items (+7 million euro in 2020; +18 million in 2019), the Ordinary EBITDA of the Business Unit came to 449 million euro, down 5 million euro on the previous year.

The change in margins is mainly due to the following:

- in the electricity and gas distribution networks (+3 million euro): lower operating costs and the consolidation of the AEB Group offset the lower revenues admitted for regulatory purposes;
- in the district heating segment (-10 million euro): negative energy scenario that characterized the current year;
- in the water cycle (+4 million euro): higher revenues due to the recent tariff increases approved by the Authority;
- in the Smart City segment (-2 million euro): conclusion of activities started in previous years relating to the construction of infrastructure for the laying of fibre optic cables.

Depreciation, amortization, provisions and write-downs equalled 209 million euro (260 million euro at December 31, 2019). The change is attributable to impairment in 2019 of the goodwill of the electricity networks as a result of the impairment test (85 million euro) partly offset by higher amortization in the year for investments made in 2020, mainly for the electricity meter replacement plan.

As a result of the above changes, Net Operating Income amounted to 247 million euro (212 million euro at December 31, 2019).

Capex for the reporting period amounted to 378 million euro and regarded:

- in the electricity distribution segment, development and maintenance work on plants and in particular the connection of new users, maintenance work on secondary cabins, the extension and refurbishment of the medium and low voltage network, the maintenance and upgrading of primary plants and investments in the launch of the 2G smart meter project (138 million euro);
- in the gas distribution segment, development and maintenance work on plants relating to the connection of new users and the replacement of medium and low pressure piping and smart gas meters (103 million euro);
- integrated water cycle segment: maintenance and development work carried out on the water transportation and distribution network and the sewage networks and purification plants (74 million euro);
- in the district heating and heat management segment, development and maintenance of plants and networks for a total of 52 million euro;
- in the Smart City segment, development and maintenance work on TLC projects (11 million euro).

Summary of  
results sector  
by sector

Results sector  
by sector

Generation  
and Trading  
Business Unit

Market  
Business Unit

Waste  
Business Unit

Networks  
Business Unit

Corporate

In 2020, FTEs stood at 2,791 units, in line with the previous year. The invariance is the combined effect of increased recruitment for investment projects in 2020 and postponement of planned recruitment to cope with the contraction of commercial activities due to the health emergency (Recovery Plan implemented by the Group during the year).

## 6.7 Corporate

### Economic figures

millions of euro	01 01 2020 12 31 2020	01 01 2019 12 31 2019	CHANGE	% 2020/2019
Revenues	264	244	20	8.2%
Gross Operating Margin - EBITDA	(24)	(36)	12	(33.3%)
% of Revenues	(9.1%)	(14.8%)		
Depreciation, amortization, provisions and write-downs	(41)	(30)	(11)	36.7%
Net Operating Income - EBIT	(65)	(66)	1	(1.5%)
% of Revenues	(24.6%)	(27.0%)		
Capex	51	45	6	13.3%
Labour costs	131	136	(5)	(3.7%)
FTE	1,393	1,420	(27)	(1.9%)

The Gross Operating Margin, corresponding to the corporate structure costs not charged back to the various Group companies in 2020 amounted to -24 million euro (-36 million in 2019).

The positive change in margins is mainly due to the greater weight in the current year of costs charged back compared to total costs incurred by the Corporate.

The costs incurred in the current year as a result of the health emergency to ensure the required safety levels - partly charged back to the Group's Business Units - and the disbursement of donations to finance the containment and management of the epidemiological emergency, were more than offset by actions to contain other operating costs and labour costs (slowdown in hiring).

Depreciation, amortization, provisions and write-downs equalled 41 million euro (30 million euro at December 31, 2019). The change is partly due to higher depreciation and amortization in 2020 and partly to the release of surplus risks provisions made in the previous year.

After depreciation, amortization, provisions and write-downs there was a Net operating loss of 65 million euro (a net operating loss of 66 million euro at December 31, 2019).

Capex totalled 51 million euro, including 38 million euro for information systems and 7 million euro for buildings.

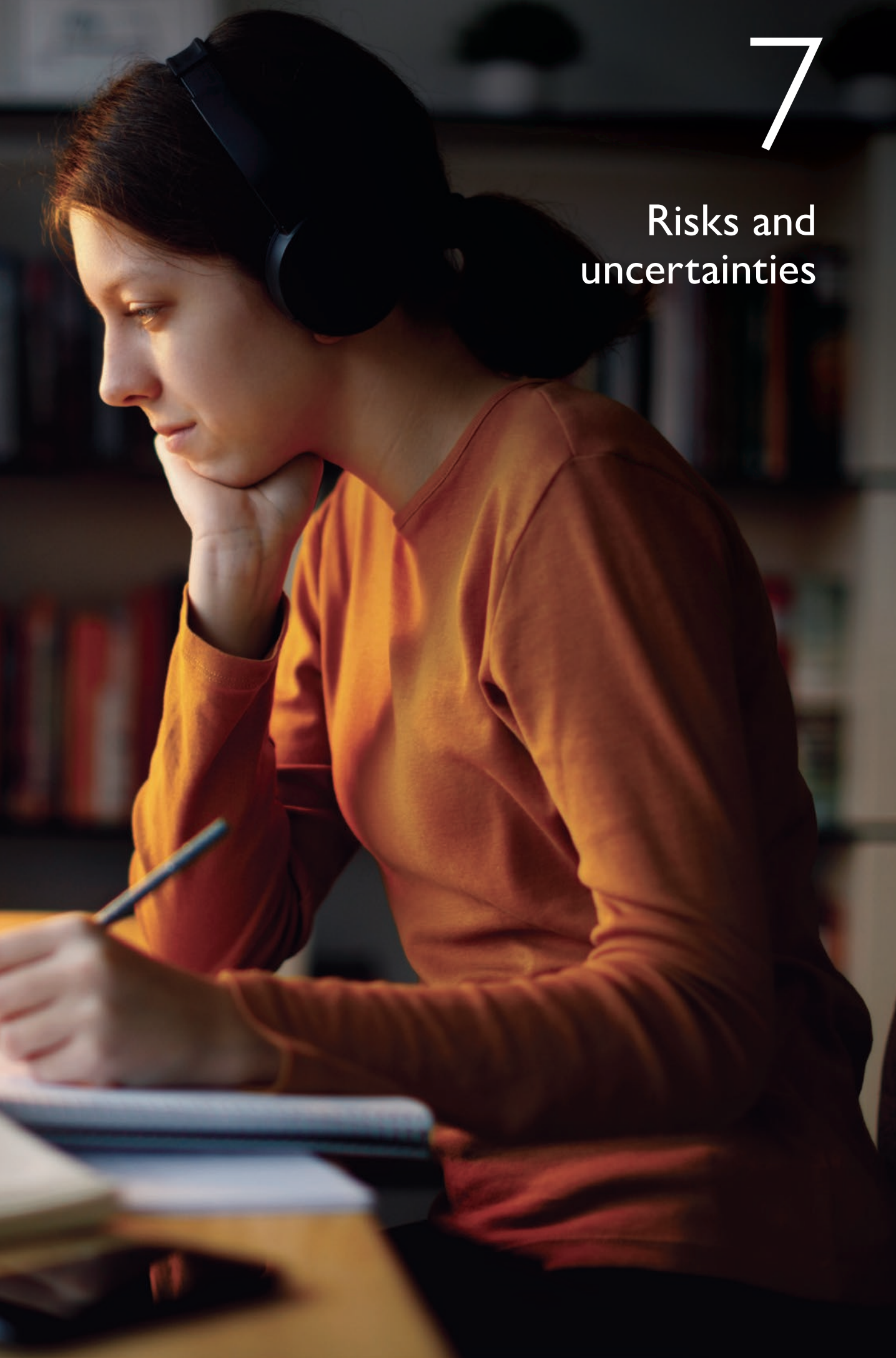
In 2020, FTEs stood at 1,393 units recording a negative change of 27 units compared to 2019 related to the efficiency and hiring restraint actions





# 7

## Risks and uncertainties



### 7.1 Risks and uncertainties

The A2A Group has a risk assessment and reporting process which is based on the Enterprise Risk Management method of the Committee of Sponsoring Organizations of the Treadway Commission (CoSO report) and best risk management practice and is in compliance with the Corporate Governance Code as updated by Consob in 2011, which states: "...Each issuer shall adopt an internal control and risk management system consisting of policies, procedures and organizational structures aimed at identifying, measuring, managing and monitoring the main risks....".

The Group has also adopted a specific procedure that defines in detail the roles, responsibilities and methodologies for the Enterprise Risk Management (ERM) process.

This process requires a risk model to be set up that takes account of the Group's characteristics, its multi-business vocation and the sector to which it belongs. This model is subject to periodic revision consistent with the evolution of the Group, and the context in which it operates. The methodology adopted is characterized by the regular identification of the risks to which the Group is exposed. In this context, an assessment process is carried out which, through the involvement of all its structures, allows the Group to identify the most important risks and establish the relative controls and mitigation plans. At this stage, the involvement of risk owners is essential as responsible for the identification, assessment and update of risk scenarios (specific events in which risk can materialize) related to activities of its competence. This phase is carried out with the support and coordination of the Group Risk Management organizational structure through operating methods that allow clearly identifying risks, the related causes and management methods.

The methodology adopted is modular and leverages on the fine-tuning of the experience gained and methods of analysis used: on the one hand, it aims to develop the risk assessment further with specific reference to the consolidation of the mitigation process and on the other to develop and integrate risk management activities in business processes. This evolution is carried out consistent with the gradual increase in the awareness of management and the business structures about risk management issues, achieved among other things through the use of specific training support provided by Group Risk Management.

The ERM process also supports the Group's ISO9001, ISO14001 and ISO45001 certifications.

Set out below is a description of the main risks and uncertainties to which the Group is exposed.

The Coronavirus emergency, having possible repercussions on more than one of the types of risk, is dealt with in this opening section.

#### Health emergency COVID-19 virus

With reference to the rise of the Coronavirus emergency, it should be noted that crisis management measures have been put in place, as well as the identification of appropriate prospective mitigations linked to the risk of temporal extension of the emergency.

Since 2018, the A2A Group has had a Group crisis plan that identifies the organizational system, activities and procedures necessary to deal with the events that led to the declaration of crisis, with the aim of protecting human resources inside and outside the A2A Group, containing material and immaterial damage and guaranteeing the correct management of communication flows externally and the continuity of the services offered, quickly organizing normal operating conditions and safeguarding the company's reputation. It should be noted that the A2A Group is managing the COVID-19 health emergency in full application of the provisions of the above procedure with the establishment and management of special Crisis Committees. These committees, which meet to coordinate crisis management activities, make it possible to direct the company's actions in line with the provisions of the various Prime Ministerial Decrees issued and carry out preventive activities by defining mitigation plans to be activated if the emergency situation worsens.

The main monitoring and mitigation actions identified are described below:

- definition of the minimum functional services to be monitored by the plant managers and the list of managers necessary to manage the plants and related back-up, also with reference to contractors; this activity has been completed and can be activated in the event of personnel unavailability;
- activities to raise awareness with the ATS (Health Protection Agencies) so that the personnel of some Group companies are guaranteed recognition of their status as workers who perform an essential service for the community, making exceptions to the health protocols to be activated if necessary;

- actions involving personnel aimed at avoiding assemblages and ensuring the safety of people (preparation of the procedural documents according to the provisions of health protocols, adoption of PPE, sanitization of premises, temperature measurement, etc.); the segregation of the personnel of external companies was also guaranteed;
- preparation of a plan of equipment and PPE requirements for use in disposable mode;
- adoption of organisational and technological solutions to ensure that certain critical processes can be carried out remotely and methods for the execution of emergency intervention;
- provision of “filter villages” with container-rooms available for personnel to be quarantined;
- establishment of “points of care” at the Group’s main sites, i.e., areas equipped for the administration of rapid swabs for the benefit of workers who have been in close contact with someone who tested positive.

With reference to the economic effects, reference should be made to the specific paragraph “Health Emergency COVID-19 Virus and Effects of the Pandemic on annual results and value of assets (IAS 36)”.

## Risks development initiatives of the strategic plan

Reference is made to the risk of non-achievement or partial achievement of the growth objectives outlined in the Business Plan adopted by the A2A Group: the 2021-2030 Plan sets ambitious growth targets, mainly in terms of the circular economy (recovery of materials and energy, exploitation of heat otherwise dispersed, preservation of water resources) and energy transition (support for growth in renewable energy sources, exploitation of the electricity generation of combined cycle plants, increase in the customer base, support for the electrification of consumption). The main risk factors affecting the various areas of development include: possible critical issues related to authorizations and adverse territorial contexts, the presence of major competitors capable of hindering the achievement of market shares in domestic and foreign markets, legislative and regulatory uncertainties related to the deregulation of domestic energy markets, and commercial risks related to the targets set in the Plan adopted to increase the customer base.

In order to monitor these issues, mainly organizational measures are highlighted, with corporate structures focused on the analysis of the markets and development areas covered by the Plan, on the management of technical and engineering aspects, on the maintenance of relations based on transparency and collaboration with the territories, bodies and institutions involved, as well as commercial development initiatives that also envisage the use of innovative communication channels and methods.

## Legislative and regulatory risks

The A2A Group operates in highly regulated sectors whether they are managed under natural monopoly (such as infrastructure for the distribution and transport of electricity and gas, the integrated water cycle and district heating) or under free market regime (such as energy management, trading and sale of energy carriers and other services to customers).

The 2018 Budget Law, moreover, has extended the regulatory and control competences of the Authority for Electricity, Gas and Water System (AEEGSI, which changes its name to ARERA - Regulation Authority for Energy, Networks and the Environment) to include the separate and combined municipal and equivalent waste collection cycle.

Among the risk factors, therefore, the constant and not always predictable evolution of the legislative and regulatory framework of reference shall be considered.

For these risk factors, the Group adopts a legislative and regulatory risk monitoring and management policy in order to mitigate, to the extent possible, the effects through oversight on various levels, which primarily involves collaborative dialogue with the institutions (ARERA, Competition and Market Protection Authority, Authority for Communications Guarantees, Ministry of Economic Development) and with technical bodies of the sector (GSE Energy Services Operator, GME Energy Markets Operator, Terna) as well as active participation in category associations and working groups established at said entities.

Also the view to European regulations, following the work of Brussels through participation in the tables of Eurelectric and Cedec, allows seeing “in advance” the subject of transposition into Italian law (in some cases automatic as per regulations).

To address these issues, the top management set up a specific organization structure called Regulatory Affairs and Competition, broadening the mandate, strengthening the link with the business and exceeding the vision for which the relationship with the regulator shall be interpreted solely as compliance (or litigation).



## 7 Risks and uncertainties

Constant dialogue with Business Units is also envisaged, not only for the simulation of impacts on current activities but also for the evaluation of new initiatives.

The Institutional and Regulatory Committee was also set up, composed of the Chairman and CEO, as well as the Institutional Affairs Manager and the Regulatory Affairs and Competition Manager. This Committee meets periodically involving from time to time the Managers of the Business Units concerned, and the Managers of the staff structures in order to transfer to them the new regulations, agree on a corporate position on evolving standards and collect the requests of the business to convey them to the stakeholders of reference.

Regulatory Affairs and Competition implemented constantly updated monitoring and control tools (ex. Regulatory Review produced every six months or the Regulatory Agenda drawn up at the time of the Budget/Plan), in order to consider the potential impacts on the regulation on the company.

From January 2017 and January 2019, respectively, the organizational structure also monitors the regulatory risk for the LGH Group and the ACSM-AGAM Group in order to monitor and manage their impact in a coordinated manner.

The main topics involved in current changes in regulations and legislation, with major potential effects on the Group, are as follows:

- the rules governing large-scale diversion of hydroelectric concessions following Law no. 12/2019 which, in article 11-quater, provided for an overall reorganization of the subject, giving the Regions an increasingly important role (for the Lombardy Region, reference is made to the Regional Law no. 5 of April 8, 2020);
- the outcome of the appeals filed by some operators and a trade association for the annulment of the Ministerial Decree MiSE of June 28, 2019 and all related acts of ARERA and Terna that implemented the capacity market regulations;
- tenders concerning the granting of concessions for the gas distribution service;
- the termination of the SII concessions held by the Group companies operating in the sector and their transfer for consideration to the Single Area Operator (with particular reference in the immediate future to the municipalities managed on a transitional basis by A2A Ciclo Idrico in the province of Brescia);
- the certification of energy savings within the White Certificates mechanism by the Energy Services Manager;
- the impact on the development of district heating due to the lack of a specific incentive tool and the start of regulation of the sector by ARERA only for aspects relating to commercial and technical quality and not also for support for investments;
- the impacts on the waste sector of the ARERA measures on the treatment phase (in particular for the definition of plant access fees);
- the provisions of the 2017 Competition Act on the termination of price protection schemes for customers in the electricity and gas sectors, the date of which is now set for January 1, 2021 for small electricity businesses and for January 1, 2023 for domestic electricity customers, micro electricity business and gas customers (as most recently postponed due to the effect of the Milleproroghe Decree).

Finally, it should be noted that, in view of the numerous interventions by the Antitrust Authority in the sectors of interest to the A2A Group (in terms of initiating investigations into abuse of a dominant position, agreements and investigations) the Board of Directors of A2A S.p.A. approved during the meeting of June 20, 2019, the adoption of the Antitrust Compliance Programme with the consequent appointment of a person responsible for its implementation and during the meeting of January 20, 2020, adoption of the Antitrust Code of Conduct. Finally, on June 23, 2020 an Antitrust Guideline was adopted, which regulates the rules of conduct that A2A Group employees must observe in order to avoid antitrust violations (document available on the company Intranet). Training sessions were initiated in 2020.

For a more detailed discussion of these risks, reference should be made to the section “Regulatory developments and impacts on the Business Units of the A2A Group”.

## Financial risks

### Liquidity risk

Liquidity risk regards the Group's timely ability to meet its payment commitments. To hedge this risk, the Group ensures the maintenance of adequate financial resources, as well as a liquidity buffer sufficient to meet unexpected commitments. At December 31, 2020, the Group had cash and cash equivalents totalling 1,012 million euro and 790 million euro in unused loans and committed credit facilities. The management of liquidity risk is pursued by the Group also by means of a Bond Issue Program (Euro

Medium Term Note Programme) sufficiently large and partially unused as to enable the Company to timely resort to the Capital market. At December 31, 2020, this program amounts to 4 billion euro, of which 1,049 million euro still available.

The Group's ability to obtain loans in the banking or financial markets depends, among other things, on prevailing market conditions and the Group's rating at the time of the need for financing. There is no guarantee that the Group will be able to access financing on equal or better terms than it currently has.

### Risks associated with compliance with debt covenants

This risk exists if the loan agreements provide for the option by the lender, upon the occurrence of certain events, to request early repayment of the loan, thus entailing a potential liquidity risk for the Group. The section "Other Information/Covenants Compliance Risk" of the consolidated Financial Report illustrates in detail these risks related to the A2A Group. The same section also lists the loans that contain financial covenants. At December 31, 2020, there was no situation of non-compliance with the covenants of the A2A Group companies.

### Interest rate risks

Interest rate risk is related to the uncertainty associated with the trend in interest rates, changes in which can result in, given a certain amount and composition of debt, an increase in net financial expenses. The volatility of financial expenses associated to the performance of interest rates is therefore monitored and mitigated through a policy of interest rate risk management aimed at identifying a balanced mix of fixed-rate and floating rate loans and the use of derivatives that limit the effects of fluctuations in interest rates.

To provide a better understanding of the risks of interest rate fluctuations to which the Group is subjected every six months at December 31 and June 30, a sensitivity analysis was conducted of net financial expenses and valuation items of derivative financial contracts as a result of interest rate fluctuations. The section "Other Information/Interest Rate Risk" of the consolidated Financial Report illustrates the effects on the change in financial charges and in the fair value of derivatives resulting from a change in the forward curve of interest rates of +/- 50 bps.

## Risks associated with industrial and business activities

### Macroeconomic context risks (GDP)

The Group's activities are sensitive to economic cycles and general economic conditions in the countries in which it operates. A slowing economy could determine, for example, a drop in consumption and/or of industrial production, having as a result a negative effect on the demand for electricity and of other carriers offered by the Group, thereby affecting the results and prospects and preventing the implementation of planned development strategies.

The current situation in the energy markets in which the Group's production facilities operate, particularly thermoelectric power plants, could be affected by a further prolonged deterioration of the overall economic context, due mainly to the restrictive measures adopted at national and international level to address the COVID-19 emergency. The risk is represented by the continuation of the emergency situation, with a delay in the recovery of the Italian production system and consequent reduced margins of the electricity production plants.

To ensure this, it should be pointed out that all the measures undertaken in the past for combined-cycle plants are still active and in operation, with the aim of guaranteeing their operating flexibility, efficiency and availability at times when such requirements are requested of them.

For the years to come, macroeconomic projections foresee a gradual recovery in international trade and a moderate expansion in domestic demand; this will lead to a partial recovery in GDP with consequent positive repercussions on the demand for electricity and energy carriers offered by the Group.

### Risks related to commodity and energy prices

Given the features of the sectors in which it operates, the Group is exposed to energy scenario risk, namely the risk linked to changes in the price of energy raw materials (electricity, natural gas, coal and fuel oil), and the prices of CO<sub>2</sub> emissions allowances (EUA) as well as the associated exchange rate. Significant, unexpected and/or structural changes in commodity prices, especially in the medium term, may result in a reduction in the Group's operating margins and cash flows.

To mitigate these risks, the Group has approved an Energy Risk Policy that regulates the procedures by which commodity risk is monitored and managed, or the highest level of variability to which the result is exposed with reference to the trend of prices of energy commodities. Consistent with the provisions of the Policy, the commodity risk limits of the Group are defined and approved annually by the Board of Directors.

## 7 Risks and uncertainties

Market risk is mitigated by constantly monitoring the total net exposure of the Group's portfolio and addressing the main factors affecting the trend. Appropriate hedging strategies are defined, where necessary, designed to maintain this risk within the established limits, typically through hedging at 12 months and partially at 24 months.

The objective of stabilizing the cash flows generated by the asset portfolio and outstanding contracts is thus pursued through the management of physical contracts and derivative financial instruments, limiting to the extent possible, the volatility of the Group's economic and financial results following changes in commodity prices.

### Social-environmental context risk

Possible opposition to the presence of plants promoted by certain stakeholders and amplified through the use of social networks, due to a negative perception of certain activities (such as waste recovery and disposal) in the areas served (the so-called "Not In My Back Yard" phenomenon) could hinder the regular operation of existing plants as well as the authorization process for new plants (for example, waste recovery or disposal plants and the conversion of thermoelectric plants), and therefore the growth planned by the Group in certain business areas.

To mitigate this risk, the Group has set up organizational structures dedicated to monitoring institutional relations, with local communities and the territory, in order to establish and maintain collaborative dialogue with the various stakeholders. Within this framework, the Group, in order to build consensus around its initiatives, participates in technical round tables with institutional counterparts, especially at local level, as well as through the organization of multi-stakeholder forums designed to promote dialogue with the local community. The forum was established with the aim of identifying solutions that can respond in a targeted and effective manner to the needs and expectations of stakeholders and that allow promoting the environmental, economic and social sustainability activities carried out by the Company and the Group and services provided in the territory.

### Risks related to climate change

The Group's hydroelectric power generation, the consumption of electricity, gas and heat for winter heating and the electricity and drinking water distribution services provided by the Group may be affected by unfavourable changes in weather and climate parameters, such as scarcity and changes in rainfall patterns, particularly mild temperatures in winter and heat waves in summer. Changes in the availability of water resources can also lead to conflicts between various stakeholders as well as restrictions on the operation of hydroelectric plants. These factors can have an unfavourable impact on the Group's production, sales and reputation and, consequently, have negative economic and financial impacts.

Several actions are underway to mitigate this risk:

- to ensure optimum exploitation of water resources available for energy, the Group has established organizational structure dedicated to the development of analyses and engineering models to support the programming, both medium and short-term, of hydroelectric plants;
- with reference to the reduction in demand for thermal energy by end users compared to as planned, the Group has set up company organizational structures dedicated to constantly updating demand forecasts in relation to expected temperature trends. In addition, long-term investments have been planned to reduce the costs of heat production through heat recovery and to develop district heating networks with a view to expanding the customer base;
- in order to guarantee, even in the long term, the supply of drinking water on an ongoing basis, the A2A Group monitors and maps leaks from the water network in order to identify the priority of investments and is studying the interconnection of aqueducts and the search for new sources of water supply.

In addition, extreme weather phenomena such as floods and landslides can have a negative impact on the Group's assets (such as canals, dams, plants) as well as on third-party infrastructures necessary for the continuity of the Group's activities (e.g. electricity transmission lines). These factors can result in direct damage to assets and/or indirect damage due to the interruption of production activities. To mitigate this risk, the Group has implemented emergency management plans and procedures. In addition, insurance policies have been taken out to cover direct and indirect damage caused by natural phenomena.

Finally, the Group is exposed to the risks associated with the expected transition to a low-carbon economy, which is expressed through regulatory amendments, possible conflicts for the use of resources, technological innovation, changes in consumption styles and stakeholder expectations. If these factors were not sufficiently taken into account in the definition of the Group's strategic choices, they could lead to economic and financial impacts due, for example, to the depreciation of industrial assets and loss of reputation.

To contribute to the decarbonization process, the Group is committed to reducing its CO<sub>2</sub> emissions - both direct and indirect. In fact, the Board of Directors approved a target for the Group's overall emissions to be achieved by 2030, which was recognized as a Science Based Target, i.e. in line with the level of decarbonization required to achieve the objectives of the Paris Agreement (limiting global warming to values well below 2 °C above pre-industrial levels and continuing efforts to limit warming to 1.5 °C). The main strategies adopted by the Group to achieve this objective include: ending the use of coal and fuel oil, increasing the efficiency of thermoelectric power plants fired with natural gas (combined cycles) and reducing emissions, adopting a strategic plan that calls for a significant increase in energy production from renewable sources, consistent with the target, and using energy entirely from renewable sources for consumption.

### **Operating risks due to the ownership and operation of electricity generation, cogeneration, waste treatment and recovery plants and distribution networks and plants**

The Group manages production sites and services that are operationally and technologically complex (power plants, dams, waste recovery and disposal plants, cogeneration plants, electricity, gas and heat distribution networks, waste collection and urban hygiene services, integrated drinking water supply service, etc.). Accidental mechanical and/or electrical failures, structural failures, fires, terrorist attacks, labour unrest and pandemics could result in damage to assets and, in the worst cases, compromise the Group's production capacity, as well as the possibility of guaranteeing the continuity of services. All these factors can also lead to cost increases, damage to third parties, as well as penalties imposed by the competent authorities.

In order to mitigate these risks, the Group implements preventive management strategies aimed at reducing the probability of their occurrence and/or mitigating their impact. In addition, the Group has investments in place to ensure constant technological updating and adequate levels of plant maintenance, emergency management plans and procedures and a crisis management procedure that provides for the establishment of interdisciplinary management committees, organized at both Group and Business Unit level and coordinated among them. Finally, work is in progress to structure the Business Continuity Plan for the A2A Group.

The Group takes out insurance cover against any direct and indirect damage which may arise from other types of risk. As part of the insurance contract periodically (every 3 years), inspections are carried out on the plants and measures to improve the safety of assets and loss prevention are recommended/verified.

### **Information technology and operational technology risks**

The A2A Group's activities are managed through IT (Information Technology) and OT (Operational Technology) systems and networks that support the main business processes, both operational and administrative and commercial. In particular, the Group uses IT systems to record, process and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory, legal and tax requirements. In addition, the Group collects and stores sensitive data, including intellectual property, business information and personal information of customers, service providers and employees, in Data Centers. The functioning of these information and technology systems and networks, as well as the processing and storage of this data in a secure manner, are fundamental to the Group's activities.

Increased threats to the security of information technology, including from the use of personal tools as a result of the remoteness of work in the period of health emergencies, and more sophisticated cybercrime pose a risk to the security of the Group's systems and networks and to the confidentiality, availability and integrity of its data. A security breach could expose the Group, its customers, service providers and employees to risks of misuse of information or systems, compromise of confidential information, loss of financial resources, data manipulation and destruction and operational disruption. All these factors could have a negative impact on the Group's reputation, competitive position, activities and results. Security breaches could also lead to disputes, fines and disqualifications, as well as operating and other costs.

In order to mitigate this risk, numerous actions are in place within the Group: internal policies and procedures, tools for segregating access to information, specific policies on the use of mobile devices, assessments of the vulnerability of systems and applications, specific software for detecting malware, training activities to increase employee awareness, periodic IT Security risk assessment activities to identify the most critical applications. Furthermore, the structuring is underway of an evolved Security Operations Center capable of increasing the effectiveness of threat monitoring, as well as specific interventions to mitigate emerging risks, also as a result of the consistent use of remote working methods linked to the COVID-19 pandemic.

## 7 Risks and uncertainties

Any inadequacies, fragmentations, unavailability and/or malfunctioning of the applications could compromise the Group's ability to operate within the set times and methods. These factors could result in a loss of reputation with customers as well as economic and financial impacts. In order to mitigate this risk, activities are underway to renew existing platforms or to rationalize the applications in use, particularly for Customer Relationship Management platforms supporting commercial activities.

There is also the risk of possible interruptions to systems and infrastructures as a result of potential events (natural or otherwise) affecting them, with potentially even critical consequences on the Group's ability to maintain the continuity of its systems. To mitigate this risk, the Group has developed a process to ensure operating continuity, even in the event of unavailability of one of the two Data Processing Centers (CED - Centro Elaborazione Dati), of some systems considered more important for business. Furthermore, the transportation activities of the Milan Data Center were completed at the infrastructure of an external supplier, with higher levels of security in terms of service continuity.

The Group ICT organizational structure also works in coordination with the competent organizational structures to develop IT systems to support compliance in the main regulatory areas, such as the protection of personal data, as well as to support the correctness of commercial practices implemented on the various sales channels.

### Health and safety risks

The occurrence of such risks may occur both in the event of accidents or serious or very serious injuries affecting employees and workers of contractors and/or third parties and in the event of occupational illnesses. These risks are related to the Group's activities such as, for example, those related to operational services in the territory and the performance of operating and maintenance processes at the plants.

The occurrence of such risks may lead to loss of reputation, as well as criminal, civil and/or administrative proceedings for violations of regulations, and/or sanctions, costs for compensation and/or increase in insurance premiums and, in the worst cases, interruption of plant operations, with consequent negative economic and financial impacts for the Group.

In order to mitigate these risks, the Group has set up organizational structures dedicated to the management of Health and Safety aspects at the parent company as well as at the Business Units, the individual companies and the main plants. The Group also maintains Health and Safety Management Systems certified in accordance with ISO 45001 for the parent company A2A and most of its Subsidiaries. In addition to specific compulsory training plans for each role and company assignment, Leadership in Health and Safety – LiHS training programs have been implemented and progressively extended also to all Business Units, which envisage at all levels emotional involvement on the issue of security and the dissemination of security culture through leaders identified within the operating areas.

In relation to the COVID-19 pandemic, given the current regulatory framework, this type of risk also includes the possibility of legal action brought by employees leading to alleged liability profiles of the employer and Group companies in the event of contact with the virus and contraction of the disease. In order to manage this risk, the Group is scrupulously adopting the prescriptions and protocols provided for by current regulations and guidelines issued by the competent bodies, as well as maximizing remote work.

### Environmental risks

The emergence of such risks may occur as a result of accidents in production processes or as a result of the particular characteristics of the business carried out by the Group, which may lead to reactions by the public opinion about presumed repercussions on the environment and/or on the health of resident populations. These risks are related, for example, to the disposal of production residues, emissions from production processes, the management of waste collection, storage, treatment and disposal activities, water purification, the management of the emptying and maintenance of water reservoirs for electricity production, etc. All these factors can potentially lead to loss of reputation, criminal, civil and administrative proceedings, penalties, environmental reclamation and restoration costs and, in the worst cases, interruption of plant operations with consequent negative economic and financial impacts for the Group.

It is also noted that any amendments to the existing legislation could entail costs and investments to ensure compliance with the new requirements as well as operational impacts on certain industrial activities.

In order to mitigate these risks, the Group, in addition to implementing technical and technological systems for the prevention and reduction of pollution at the various industrial sites in compliance with sector regulations and in accordance with the best available techniques, has set up organizational structures dedicated to the management of environmental aspects at the parent company as well as at the Business Units, individual companies and the main plants. The Group also keeps the Environmental Management

Systems certified according to the ISO 14001 standard active for the parent company A2A and for the main companies. For some sites, there are also registrations under the European EMAS Regulation. The A2A Group has taken out insurance cover against damage arising from both accidental and gradual pollution in order to cover any residual environmental risk, i.e. against events caused by a sudden and unpredictable fact, and against the environmental damage inherent in continuing operations. The Group is also active in monitoring the regulations in progress and is also present on the technical panels set up by the associations in order to highlight any critical issues related to regulatory developments.







8

Sustainability responsible  
management





## 8.1 Sustainability responsible management

Sustainability has been part of the political agendas of the world's most important leaders for several years now, especially thanks to the UN 2030 Agenda, which in 2015, drew up a new global framework for sustainable development with its 17 goals (Sustainable Development Goals - SDGs). However, it became the absolute protagonist of international politics and common feeling in 2019. One thinks of the Green Deal, presented in the last months of the year by the President of the European Commission, Ursula von der Leyen, who promotes a public-private alliance to make our continent the world champion of the green economy, capable of achieving carbon neutrality in 2050, and of the "Friday for future" global climate strikes, massively joined by young people of the Z generation, strongly demanding the change towards a low carbon and circular economy.

The COVID-19 pandemic that erupted in early 2020 gave greater depth and meaning to sustainability. The health emergency has revolutionized and overturned people's ways of living, highlighting the very close interconnection between individual and collective well-being, environment and society. Social responsibility has become one of the cornerstones for dealing with the emergency in its various phases, and a further push towards an inclusive model of development that leaves no one behind.

In this situation of profound crisis, A2A saw an opportunity to renew itself and significantly strengthen its contribution to the transition to a new economic and development model, aimed at guaranteeing future generations a sustainable tomorrow. In this direction, in the last months of 2020, the Group worked on the definition of a new business strategy, based on sustainability, with a long-term time horizon, to 2030, within the framework of the UN 2030 Agenda.

The new Strategic Plan, which envisages development based on energy transition and circular economy, will entail, in 2021, an important update also of the actions and objectives of the Sustainability Plan, which had been approved on March 19, 2020 for the five-year period 2020-2024.

On May 13, 2020, the fourth Group Integrated Report was presented to the A2A Shareholders' Meeting, which for the second year, is also the Non-Financial Statement pursuant to Legislative Decree 254/16. This document continues to be drawn up according to rigorous and internationally shared standards and methodologies, in particular the Integrated Reporting Framework (IR Framework) and the international standards of the Global Reporting Initiative (GRI). For the fourth consecutive year, the Sustainability Plan was monitored in the document, which showed that most of the indicators are making significant progress, giving reason for the work that the Group is carrying out.

Thanks partly to this performance, in the early months of 2020, the A2A positive rating of EE (Strong) in the short term and its medium-term rating of EE+ (Very Strong) were confirmed by Standard Ethics. The company has also been confirmed in the six ethical indices in which it is included (FTSE4Good Index, ECPI Indices, Ethibel Sustainability Index Excellence Europe, EURO STOXX Sustainability Index, Euronext Vigeo Index, Eurozone 120, Standard Ethics Italian Index). In addition, in 2020 A2A achieved a band of excellence in the CDP Climate Change, increasing its score from "B-" to "A-".

These confirmations are due in particular to the A2A Group's new emissions policy, which has made the decarbonisation targets even more ambitious, aligning them with the Paris Climate Agreement of 2015. In this direction, A2A has foreseen, by 2030, a 46% reduction in direct greenhouse gas emissions (Scope 1) per kWh produced compared to 2017 (emission factor at 2030 equal to 230 gCO<sub>2</sub>/kWh). The commitments also include a 100% reduction in Scope 2 emissions by 2024, and a 20% reduction in indirect Scope 3 emissions by 2030 linked to the purchase of fuels for its own plants and gas sales to end customers. This new target was submitted to the Science-Based Targets initiative (SBTi) - an initiative that stems from the collaboration between CDP (previously Carbon Disclosure Project), the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) - to verify the alignment of the decarbonisation targets of companies with the indications of the Paris Agreement (COP21). A2A was the first multi-utility in Italy to have obtained validation of the emission target by SBTi. In March 2020, the emission reduction targets were in fact approved by SBTi, as consistent with scientific climate evidence, and aligned with the reduction required to contain global warming at 2° compared to the pre-industrial era.

As far as territorial sustainability is concerned, in 2020, A2A, despite the difficulties deriving from the COVID-19 health emergency, continued to express the Group's commitment and contribution to the sustainable development of its territories. The 2019 Sustainability Reports of Milan, Brescia and Bergamo, Valtellina-Valchiavenna, Friuli Venezia Giulia and Piedmont were produced and presented in events with a dual "soul": in presence, in compliance with current COVID-19 regulations, and "remotely" in live streaming. Once again this year, the documents described in detail the performance and projects that

the Group is carrying out in favour of each area, starting from the 11 Sustainable Development Goals of the UN Agenda 2030, chosen by A2A. For each of these Reports, a summary paper version has been produced together with an in-depth version, which may be consulted on the web in the Sustainability section of the A2A corporate website. The area was completely redesigned in 2020, with the aim of making it a meeting space between the company, citizens and users, and to allow easier and more multidimensional navigation. In particular, three dimensions have been developed: the first is dedicated to the services and performance of the year in the local areas, the second - A2A for the SDGs - in which the A2A contribution to their sustainable development is described and the third - Territorial stories - dedicated to sharing the most significant projects carried out.

As part of the stakeholder listening programme, the first meeting of the Brescia 2020 forum *Ascolto* was held on December 15, created as a moment of dialogue and discussion with the main stakeholders of the Brescia area, with the aim of creating a shared strategic document that includes the actions and projects that A2A may put in place, including through agreements or partnerships with local players, to contribute actively to the economic recovery and sustainable development of the Brescia area. The forum is also an opportunity to start a structured discussion with local realities in relation to the National and Regional Strategy of Sustainable Development and to the opportunities offered by recent European policies in the environmental area (Green Deal, Next Generation EU, next European planning).

The organization of the forum was preceded by a stakeholder listening action, carried out through interviews, from which three key themes emerged: Energy Transition, Circular Economy, Water. Starting from these macro-themes, this first meeting of the forum - which took place online - allowed the identification of needs and priorities for intervention. Starting from the priorities and needs that have emerged, the second appointment will be in 2021, and will have the aim of identifying the projects to be developed, favouring and enhancing forms of collaboration and partnership between the company and institutions, the academic world and the economic and social forces of the Brescia area.

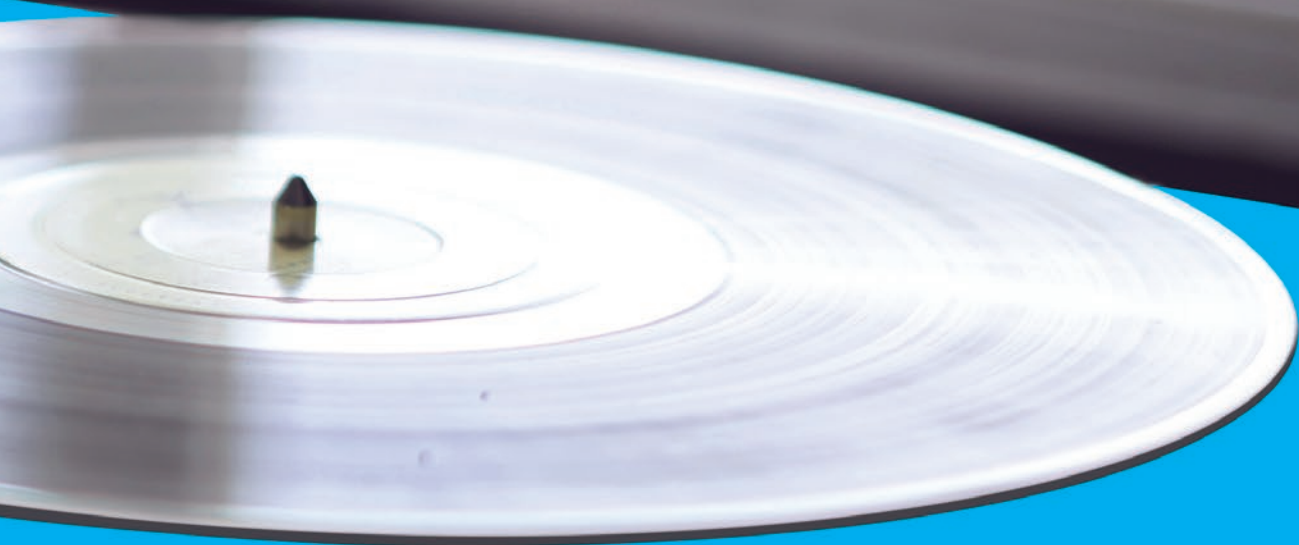
Regarding the Banco dell'Energia – the social responsibility project that emerged from the Brescia forum – promoted by A2A with the AEM Foundation and the ASM Foundation, the 16 projects that have been awarded the resources made available by the Doniamo Energia2 call continued to support families in situations of economic and social vulnerability throughout Lombardy. A third tender “Doniamo Energia3” was launched, reserved for the networks supported as part of the two previous editions, which have already promoted projects capable of intercepting fragile families at an early stage. Indeed, the lock-down phase had an immediate impact on the country's economy and household budgets. The objective of the third edition of “Doniamo Energia” is to provide rapid and coordinated responses to the population in poverty and vulnerability, starting with that very segment of the population that has found itself in a condition of sudden fragility due to the economic and social repercussions of the COVID-19 health emergency.

Regarding educational activities, June 2020 marked the conclusion of the Missione Terra Global Goal Protocol merit competition for the 2019-20 school year, dedicated to Italian secondary and high schools and focused on objective no. 4 - “Quality education”, of Agenda 2030. In September, the new “Energiascuola” project was launched for the 2020-21 school year, focusing on objectives no. 7 “Renewable energy” accessible to all and no. 12 “Responsible consumption”. An energy simulator and an interactive quiz will allow students to analyze how efficient their school is and how they can contribute with their behaviour to effective energy saving.

Also in response to the COVID emergency, new video content and webinars have been published on the innovative digital platform [edutv.a2a.eu](https://edutv.a2a.eu) to continue to dialogue with teachers registered in the [schools.a2a.eu](https://schools.a2a.eu) portal and support them during remote learning. This year, the schedule of edutv has been enriched by a series of live appointments with high-profile speakers coordinated by Cristina Gabetti, journalist and international environmental communication expert on the Sustainable Development Goals of the UN 2030 Agenda.



## Other information



## 9.1 Other information

### Audit of the financial statements and disclosures pursuant to article 149-duodecies of the Consob Issuers' Regulations

The annual financial statements of A2A S.p.A. have been subject to a full audit by EY S.p.A. on the basis of their appointment for financial years 2016 to 2024 by shareholders in general meeting.

The following table provides a summary of the fees paid for audit work performed within the Group during 2020, analyzed between the leading auditor EY S.p.A. and other auditors.

Description thousands of euro	Leading Auditor	Other auditors
<b>A2A S.p.A.</b>		
Audit of annual financial statements	147	
Audit of consolidated financial statements	43	
Periodic tests of accounting	21	
Review of half-yearly report	68	
Audit of the separate annual accounts for ARERA	15	
<b>Total</b>	<b>294</b>	<b>-</b>
<b>Subsidiaries</b>		
Audit of annual financial statements	831	
Periodic tests of accounting	208	
Review of half-yearly report	191	
Audit of the separate annual accounts for ARERA	72	
Other consolidated groups (LGH, ACSM-AGAM, AEB)	637	
<b>Total</b>	<b>1,939</b>	<b>-</b>
<b>Associates and joint ventures</b>		
Audit of the information sent to shareholders for the consolidation	29	
<b>Total</b>	<b>29</b>	
<b>TOTAL A2A GROUP</b>	<b>2,262</b>	<b>-</b>

In addition to the above audit work, companies belonging to the EY network also performed other engagements in 2020 for fees amounting in total to 167 thousand euro, which mainly related to activities as the Company's legal auditor as specified by current legislation.

### Treasury shares

At December 31, 2020, A2A S.p.A. held 23,721,421 treasury shares, being 0.757% of its share capital consisting of 3,132,905,277 shares. At December 31, 2020, no treasury shares were held through subsidiaries, finance companies or nominees.

Each share has a par value of 0.52 euro.

### Secondary locations

The company does not have secondary offices.

### Related parties and tax consolidation

Details of related party transactions are provided in note 39 to the Consolidated financial statements and note 35 to the Separate financial statements.

\* \* \*



The information on corporate governance and ownership structures required by article 123-bis of Legislative Decree no. 58/1998, as amended, is contained in a separate document "Report on Corporate Governance and Ownership Structures for the year ended December 31, 2020", which forms an integral part of the financial statements documentation.

In compliance with the requirements of the "Regulation on provisions relating to related party transactions" adopted by Consob with Resolution no. 17221 of March 12, 2010 and subsequently amended by Resolution no. 17389 of June 23, 2010, by way of a resolution of November 11, 2010 the Management Board approved, following the favorable opinion of the Internal Control Committee, the prescribed procedure for identifying the rules and controls designed to ensure the transparency and substantial and procedural correctness of the related party transactions carried out by A2A S.p.A. directly or through its subsidiaries. This procedure, which may be found on the website [www.a2a.eu](http://www.a2a.eu), has been applied since January 1, 2011.

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.

The company has availed itself of the possibility permitted by article 70, paragraph 8 and article 71, paragraph 1-bis of the Issuers' Regulations, and hence of derogating from the requirement to make an information document available to public in the event of significant mergers, spin-offs, share capital increases by means of the contribution of assets in kind, acquisitions and disposals.