

1909 2019

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ACEA e ROMA

passione e innovazione




GANGEMI EDITORE
INTERNATIONAL

The background features a photograph of a person in a white lab coat, partially obscured by a large, semi-transparent blue circle. A dotted pattern of small blue dots is visible in the upper right quadrant. In the bottom left, a portion of a black book or folder with the letters 'eo' is visible. The overall color palette is dominated by various shades of blue.

REPORT ON OPERATIONS

CORPORATE BODIES

Board of Directors

Michaela Castelli	Chairman
Stefano Antonio Donnarumma	CEO
Alessandro Caltagirone	Director
Massimiliano Capece Minutolo Del Sasso	Director
Gabriella Chiellino	Director
Giovanni Giani	Director
Liliana Godino	Director
Maria Verbena Sterpetti ¹	Director
Diane Galbe ²	Director

Board of Statutory Auditors

Maurizio Lauri	Chairman
Pina Murè	Standing Auditor
Maria Francesca Talamonti	Sindaco Effettivo
Maria Federica Izzo	Alternate Auditor
Mario Venezia	Alternate Auditor

Dirigente Preposto

Giuseppe Gola

Auditing Firm

PricewaterhouseCoopers SpA

¹ Appointed by the Shareholders' Meeting on 17 April 2019.

² Co-opted on the BoD on 11 December 2019.

SUMMARY OF RESULTS

Income Statement Data

€ million	31/12/2019	31/12/2018	Change	% Change
Consolidated revenues	3,186.1	3,028.5	157.6	5.2%
Consolidated operating costs	2,185.3	2,138.6	46.7	2.2%
Income/(costs) from equity investments of a non-financial nature	41.4	43.3	(2.0)	(4.5)%
Net income/(costs) from commodity risk management	0.1	0.0	0.1	n.s.
EBITDA	1,042.3	933.2	109.1	11.7%
EBIT	518.1	478.6	39.5	8.3%
Net profit/(loss)	307.2	284.7	22.5	7.9%
Profit/(loss) attributable to minority interests	23.5	13.7	9.8	71.5%
Net Group result	283.7	271.0	12.7	4.7%

EBITDA per Operating Segment

€ million	31/12/2019	31/12/2018	Change	% Change
ENVIRONMENT	52.0	65.6	(13.6)	(20.8)%
COMMERCIAL AND TRADING	69.1	76.1	(7.0)	(9.2)%
OVERSEAS	16.9	14.8	2.1	14.3%
WATER	505.0	433.0	72.0	16.6%
Integrated water service	501.9	432.0	69.9	16.2%
Others	3.0	1.0	2.1	n.s.
ENERGY INFRASTRUCTURE	392.0	360.7	31.2	8.7%
Distribution	345.4	317.1	28.3	8.9%
Generation	44.6	49.0	(4.4)	(9.0)%
Public Lighting	1.9	(5.4)	7.3	(136.1)%
ENGINEERING AND SERVICES	13.0	18.0	(5.1)	(28.1)%
Acea (Corporate)	(5.6)	(34.9)	29.4	(84.1)%
Total EBITDA	1,042.3	933.2	109.1	11.7%

Consolidated balance sheet data

€ million	31/12/2019	31/12/2018	Change	% Change
Net Invested Capital	5,169.5	4,471.5	698.0	15.6%
Net Debt	(3,062.8)	(2,568.0)	(494.8)	19.3%
Consolidated Shareholders' Equity	(2,106.7)	(1,903.5)	(203.2)	10.7%

Net debt per Operating Segment

€ million	31/12/2019	31/12/2018	Change	% Change
ENVIRONMENT	256.5	203.6	52.9	26.0%
COMMERCIAL AND TRADING	(53.2)	(23.7)	(29.5)	124.2%
OVERSEAS	(4.5)	4.1	(8.7)	n.s.
WATER	1,286.5	1,039.0	247.4	23.8%
Integrated water service	1,287.2	1,048.4	238.8	22.8%
Others	(0.7)	(9.3)	8.6	(92.3)%
ENERGY INFRASTRUCTURE	1,320.5	1,121.9	198.6	17.7%
Distribution	1,141.7	1,010.3	131.4	13.0%
Generation	178.8	112.4	66.4	59.1%
Public Lighting	0.0	(0.8)	0.8	(100.0)%
ENGINEERING AND SERVICES	6.7	(13.3)	20.0	(150.6)%
Acea (Corporate)	250.4	236.4	14.0	5.9%
Total	3,062.8	2,568.0	494.8	19.3%

Debt at 31 December 2019: 1) is shown gross of € 18.7 million of receivables relating to IFRIC 12 of Acea SpA; 2) contains € 77.1 million of payables for dividends approved and not yet distributed to Roma Capitale; 3) contains € 16.3 million of receivables relating

to the request for reimbursement presented to AGCM for repayment of the sum paid at the end of the year; 4) is shown gross of € 17.4 million of payables relating to some acquisitions of equity investments in the photovoltaic sector during the year.

Investments per operating segment

€ million	31/12/2019	31/12/2018	Change	% Change
ENVIRONMENT	51.9	20.0	31.9	159.6%
COMMERCIAL AND TRADING	42.5	24.6	17.9	72.6%
OVERSEAS	7.0	6.6	0.4	6.6%
WATER	380.1	329.7	50.4	15.3%
Integrated water service	378.4	329.5	48.9	14.8%
Others	1.7	0.2	1.5	n.s.
ENERGY INFRASTRUCTURE	287.8	238.3	49.4	20.7%
Distribution	265.7	218.4	47.2	21.6%
Generation	18.8	15.5	3.3	21.5%
Public Lighting	3.3	4.4	(1.1)	(25.9)%
ENGINEERING AND SERVICES	1.8	1.6	0.2	13.6%
Acea (Corporate)	21.7	10.0	11.7	116.3%
Total	792.8	630.8	161.9	25.7%

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

On 5 October 2015, ESMA (European Securities and Markets Authority) published its guidelines (ESMA/2015/1415) on criteria for the presentation of alternative performance indicators which replace, as of 3 July 2016, CESR/05-178b recommendations. This orientation was acknowledged in our system in CONSOB Communication no. 0092543 dated 3 December 2015.

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

1. for the Acea Group, the *gross operating profit* (or EBITDA) is an operating performance indicator and from 1 January 2014 also includes the condensed result of equity investments in jointly controlled entities for which the consolidation method changed when international accounting standards for financial reporting IFRS 10 and IFRS 11 came into force. *EBITDA* is determined by adding the Operative Result to “Amortisation, depreciation, provisions and impairment”, insofar as these are the main non-cash items;
2. the *net financial position* is an indicator of the Acea Group’s financial structure, the sum of non-current borrowings and financial liabilities (excluding payables arising as a result of certain acquisitions during the year) net of non-current financial assets (financial receivables excluding a part of receivables related to Acea SpA’s IFRIC 12 and securities other than equity investments), current borrowings and other current financial liabilities net of current financial assets (including receivables for the repayment requested from the AGCM), cash and cash equivalents;
3. *net invested capital* is the sum of “current assets”, “non-current assets” and assets and liabilities held for sale, less “current liabilities” and “non-current liabilities”, excluding items taken into account when calculating the net financial position;
4. *net working capital* is the sum of current receivables, inventories, the net balance of other current assets and liabilities and current payables, excluding the items considered in determining the net financial position.

SUMMARY OF RESULTS: PERFORMANCE OF ECONOMIC RESULTS

Income Statement Data

€ million	2019	2018	Change	% Change
Revenue from sales and services	3,022.2	2,836.9	185.3	6.5%
Other revenue and proceeds	163.9	191.6	(27.7)	(14.4)%
Costs of materials and overheads	1,936.4	1,918.9	17.5	0.9%
Personnel costs	248.9	219.6	29.2	13.3%
Net income/(costs) from commodity risk management	0.1	0.0	0.1	n.s.
Income/(costs) from equity investments of a non-financial nature	41.4	43.3	(2.0)	(4.5)%
EBITDA	1,042.3	933.2	109.1	11.7%
Amortisation, depreciation, provisions and impairment charges	524.2	454.7	69.5	15.3%
Operating profit/(loss)	518.1	478.6	39.5	8.3%
Financial items	(90.3)	(82.9)	(7.4)	9.0%
Equity investments	2.6	13.3	(10.7)	(80.6)%
Profit/(loss) before tax	430.4	409.0	21.4	5.2%
Income taxes	123.2	124.3	(1.1)	(0.9)%
Net profit/(loss)	307.2	284.7	22.5	7.9%
Profit/(loss) attributable to minority interests	23.5	13.7	9.8	71.5%
Net profit/(loss) attributable to the Group	283.7	271.0	12.7	4.7%

At 31 December 2019, changes in the scope of consolidation took place compared to 31 December 2018. Specifically:

- on 18 March 2019 Acea acquired 51% of the company Pescara Distribuzione Gas;
- on 30 April 2019, the companies Acea Solar and Acea Sun Capital were established; the latter includes the acquisitions of photovoltaic plants for a total of 28 MWp made during the second half of 2019 through the acquisition of controlling interests in 13 companies;
- on 4 July 2019 Acea Ambiente acquired 90% of Demap, a company operating in Piedmont in the field of plastics recycling, and on 18 October acquired 60% of Berg, a waste management company in the Municipality of Frosinone;
- on 25 June 2019 Acea SpA set up the company Acea Innovation, operating in the field of Technological Innovation;
- with effect from 7 October 2019, AdF is fully consolidated following the amendment of the shareholders' agreements that allowed Acea to exercise control over the company in accordance with IFRS 10.

Finally, with regard to 2018, please note that:

- Gori was consolidated on a line-by-line basis on 8 November

2018 following the amendment of the agreements with the Campania Region that gave Acea control over the company in accordance with IFRS 10. Therefore, Gori's income statement at 31 December 2018 contains the equity valuation until 8 November and the remaining part of the year is consolidated on a line-by-line basis;

- On 29 November 2018, Acea Ambiente acquired 100% of Bioecologia, a company operating in Tuscany in the field of liquid and solid waste treatment. Therefore the company's income statement as at 31 December 2018 only contains the consolidation for the month of December 2018;
- Acea Peru, incorporated on 28 June 2018, is 90% owned by Acea International and the remaining 10% by Acea Dominicana, and on 5 July 2018 Consorcio Servicios Sur was acquired, 50% owned by Acea International and 1% by Acea Ato 2.

For more details, see the paragraph "Criteria, procedures and area of consolidation".

The table below shows the impact of the change in the scope of consolidation at 31 December 2019.

€ million	Gori	Adf	Pescara Distribuzione Gas	Bioecologia	Demap	Berg	Newco Fotovoltaico	Overseas
Revenues	167.1	27.5	7.6	3.3	5.0	1.5	4.8	5.0
EBITDA	53.9	13.5	1.7	(0.2)	1.8	0.5	3.6	0.2
EBIT	20.7	3.7	1.0	(0.5)	1.5	0.4	1.2	0.1
EBT	15.1	2.1	0.9	(0.6)	1.5	0.4	0.7	0.0
NP	9.0	1.0	0.6	(0.6)	1.1	0.2	0.3	0.0

Revenue from sales and services amounted to € 3.0 billion, an increase of € 185.3 million

As at 31 December 2019, revenues from sales and services come to € 3,022.2 million, up € 185.3 million (+ 6.5%) on those of 2018, mostly due to the increase in revenues from the increase in

revenues from the integrated water service (+ € 220.5 million). This change is mainly due to: 1) Gori for € 167.1 million; 2) AdF for € 25.7 million (in 2018 the Company was consolidated using the equity method); 3) Acea Ato 2 (+ € 21.5 million) mainly due to the tariff increase determined by ARERA Resolution 918/2017 fol-

lowing the two-year update of the 2018-2019 tariff and the increase in the premium for contract quality compared with the previous year (+ € 2.2 million).

Also contributing to the change in revenues from sales and services: 1) the increase in revenues from waste transfer and landfill management (+ € 15.3 million) mainly due to the price effect and the consolidation of Bioecologia for € 3.6 million; 2) the increase in revenues from gas sales for € 19.8 million mainly due to Acea Energia (+ 11.5 million sm³ compared to 2018) and the consolidation of Pescara Gas for € 5.0 million; 3) the higher revenues of foreign companies due to the acquisition of Consorcio CSUR (+ € 5.6 million) and the better performance of Aguas de San Pedro which recorded higher revenues for € 4.4 million.

These increases were partially offset by the reduction in revenues from the sale of electricity of € 73.6 million, as a result of the RCV review of the margin as well as the value recognised for the mechanism for compensating for arrears, provided for in Resolution 706/2018 ARERA. This item includes the higher revenues from the sale of photovoltaic energy deriving from the new companies acquired, for a total of € 4.7 million. These revenues represent the incentive contribution recognised by the GSE for the production of energy from photovoltaic plants. The installed capacity of the newly acquired plants amounts to a total of 28 MWp.

Other revenues amounting to € 163.9 million

Other revenues show a decrease of € 27.7 million (- 14.4%) compared to the previous year.

The changes are due to a number of items with an opposing sign:

1. from the reduction of € 18.1 million in the contributions accrued on white certificates (TEE) in portfolio. Revenues from TEEs are offset by the costs incurred to purchase them;
2. from the reduction of € 34.0 million in out-of-period income from previous years' items;
3. from the recognition of the amount of € 16.2 million for the total cancellation of the administrative fine imposed by the AGCM and served on 8 January 2019, following the appeal

4. filed by Acea with the Lazio Regional Administrative Court; from the revenues from the "Open Fiber" agreement for the construction of infrastructure on the network and the laying of optical fibre (+ € 6.3 million).

External costs for €1.9 billion, up € 17.5 million on 31 December 2018

This item shows an overall increase of € 17.5 million (+ 0.9%) compared to 31 December 2018. The change is due for € 100.0 million to the change in the scope of consolidation, of which € 76.6 million of Gori and the remainder mainly from the following effects:

- lower purchase costs of the white certificates by areti (- € 19.2 million) for the fulfilment of the regulatory obligation concerning energy efficiency;
- lower costs for use of leased assets, of which - € 11.4 million due to the application of IFRS 16 (see the section on "Effects deriving from the introduction of new accounting standards");
- lower out-of-period expenses for € 34.7 million of items related to previous years, in particular Acea Energia (- € 26.5 million).

It should be noted that other operating expenses at 31 December 2018 included € 16.2 million relating to the penalty imposed on Acea by the AGCM (for further information, please refer to the section on the Industrial, Commercial and Trading Segment in this report).

Personnel costs, net of the change in the scope of consolidation, decreased by - € 0.5 million

Labour costs increased by € 29.2 million compared to the previous year. The change in the scope of consolidation (+ € 29.7 million in total) is mainly related to the consolidation of Gori, which contributed an increase of € 23.0 million; the increase in capitalised costs was also mainly attributable to the consolidation of Gori for € 15.5 million. This was followed by the higher capitalisations of Acea Ato 2 for € 3.8 million and areti for € 7.9 million.

The average number of employees was 7,070 and increased by 599 compared to the previous year, mainly due to the effect of the change in the scope of consolidation.

€ million	2019	2018	Change	% Change
Staff costs including capitalised costs	398.6	342.6	56.0	16.4%
Costs capitalised	(149.7)	(122.9)	(26.8)	21.8%
Personnel costs	248.9	219.6	29.2	13.3%

Non-financial investment income decreased by € 2.0 million

The income from non-financial equity investments represent the consolidated result according to the equity method included among the components forming the consolidated Gross Operating Profit of the strategic companies. The table below shows the financial results

of the companies valued according to the equity method. It should be noted that these figures also include Gori's 2018 results up to 7 November 2018 (date of commencement of full consolidation) for € 2.6 million and the 2019 results of AdF consolidated according to the equity method up to 7 October 2019.

€ million	2019	2018	Change	% Change
EBITDA	144.1	161.4	(17.3)	(10.7%)
Amortisation, depreciation, impairment charges and provisions	(79.6)	(94.5)	15.0	(15.8%)
Financial items	(8.0)	(5.9)	(2.1)	34.9%
Total profit/(loss) on equity investments	(0.0)	(0.0)	0.0	(87.8%)
Taxes	(15.1)	(17.5)	2.4	(13.9%)
Income from equity investments of a non-financial nature	41.4	43.3	(2.0)	(4.5%)

EBITDA at € 1,042.3 million up by 11.7%

EBITDA rose from € 933.2 million in 2018 to € 1,042.3 million at 31 December 2019, recording an increase of € 109.1 million or 11.7%. The increase is mainly due to the water sector (+ € 72.0 million), of which € 69.1 million is due to the change in the scope of

consolidation and the remaining part to tariff trends, followed, as regards the significant increase in margins, by the distribution and generation sectors (overall + € 31.2 million) resulting from the positive effect of the energy balance sheet for € 18.2 million and the equalising effects and improvement in the margin of the Public

Lighting sector (+ € 7.3 million); the change in the scope of consolidation relating to the acquisition of the photovoltaic companies during the second half of 2019 weighs in at € 3.7 million. The Parent Company also improved its margins (+ € 29.4 million), as a result of the cancellation of the AGCM fine recorded under costs in the previous year (overall the positive effect of the change, € 32.3 million, derives from the recording of the cost in 2018 and the out-of-period income recorded in 2019). The margin of the Commercial and Trading Segment decreased by € 7.0 million due to the lower energy margin, mainly because of the reduction in tariffs and the revision of the mechanism for offsetting arrears. The Environ-

ment Segment recorded an overall decrease of € 13.6 million, mainly due to lower CIP 6 revenues of € 16.7 million. It should be noted that the first-time application of IFRS 16 affected the improvement in EBITDA for a total of € 11.4 million (for further details see the section “Effects of the introduction of new accounting standards”).

EBIT of € 518.1 million (+8.3%)

EBIT increased by € 39.5 million compared to the year ended 31 December 2018.

Details of the items affecting EBIT are presented below:

€ million	2019	2018	Change	% Change
Amortisation / depreciation of intangible and tangible assets and write-downs	409.6	366.8	42.7	11.6%
Net write-downs (write-backs) of receivables	66.8	75.1	(8.3)	(11.0)%
Provision for risks and charges	47.8	12.8	35.1	n.s.
Amortisation, depreciation, impairment charges and provisions	524.2	454.7	69.5	15.3%

The increase in EBIT was mitigated by the increase in amortisation and depreciation (+ € 42.7 million compared with 2018) mainly due to the change in the scope of consolidation of € 38.9 million (of which € 20.7 million relating to Gori and € 3.7 million to AdF). The increase in amortisation and depreciation was also affected by the first application of the new international standard IFRS 16, which with effect from 1 January 2019, led to the recognition of rights of use of assets belonging to others (*Right of use*) as fixed assets under lease and amortised over the expected duration of the related contracts. The recognition of the portion of such amortisation and depreciation for 2019 amounts to € 10.7 million (for further details on this, see the section “Effects deriving from the introduction of new accounting standards”).

Write-downs of receivables of € 9.4 million net of changes in the scope of consolidation decreased by € 17.7 million mainly due to the positive recognition of the effects of the issue on 27 December 2019 of Resolution 568/2019/R/EEL, which provides for the recovery of the portion relating to network tariffs similar to the model for the recognition of uncollected general system charges (- € 12.8 million refer to the provisions made by areas regarding the Gala matter) and lower provisions for the write-down of receivables of the Commercial and Trading Segment (- € 6.7 million).

Provisions net of the release relating to Gori recorded in the previous year for € 44.2 million decreased by € 9.1 million mainly due to: 1) lower tax and regulatory provisions for a total of € 8.7 million, 2) the release of € 4.4 million for the excess amount set aside in Acea Energia in previous years, mainly due to the multi-year adjustment session of the gas service for the years 2014-2017 (€ 3.8 million). These effects were partially offset by the higher provisions for other charges, in particular relating to Acea Ato 5 for € 4.5 million, set aside following the decisions that arose from the reconciliation between Optimal Territorial Area Authority no. 5 Southern Lazio Frosinone and Acea Ato 5. These

costs represent portions of investments to be carried out without any tariff recognition, therefore they are fully borne by the Operator. For further information, see the details in the paragraph “Conciliation Board with AATO 5” included in the section “Significant events for the 2019 financial year”.

Financial items increased by € 7.4 million

The result of financial operations shows net charges of € 90.3 million and an increase of € 7.4 million compared to 2018. It should be noted that the impact of discounting charges deriving from the application of IFRS 16 amounted to € 2.0 million (for further details see the section “Effects deriving from the introduction of new accounting standards”).

At 31 December 2019, the average all-in cost of the Acea Group’s debt stood at 2.15%, compared with 2.21% in the previous year.

Management of equity investments decreased by € 10.7 million

Management of equity investments decreased by € 10.7 million as a result of the recording in 2018 of income relating to the closure of the TWS Group’s Business Combination, for € 8,902 thousand.

Tax rate of 28.6%, a reduction of 1.8 percentage points

The estimate of the fiscal charges amounted to € 123.2 million, compared to € 124.3 million for last year. The overall decrease of - € 1.1 million recorded in 2019 is mainly due to the effects of the recalculation of deferred taxes. The tax rate for 2019 was 28.6% (30.4% at 31 December 2018).

The Group’s net result is up 4.7%

The net result attributable to the Group is € 283.7 million, and shows an increase of € 12.7 million with respect to the previous year.

SUMMARY OF RESULTS: TRENDS IN FINANCIAL POSITION AND CASH FLOWS

Consolidated balance sheet data

€ million	31/12/2019	31/12/2018	Change	% Change
Non-current assets and liabilities	5,825.8	5,114.2	711.5	13.9%
Net working capital	(656.2)	(642.7)	(13.5)	2.1%
Invested capital	5,169.5	4,471.5	698.0	15.6%
Net debt	(3,062.8)	(2,568.0)	(494.8)	19.3%
Total shareholders' equity	(2,106.7)	(1,903.5)	(203.2)	10.7%
Total sources of financing	5,169.5	4,471.5	698.0	15.6%

Compared to 31 December 2018, non-current assets and liabilities increased by € 711.5 million (+ 13.9%) mainly due to the growth in

fixed assets (+ € 774.3 million), the provision for risks (+ € 14.8 million) and the increase in other non-current liabilities (+ € 42.9 million).

€ million	31/12/2019	31/12/2018	Change	% Change
Tangible/intangible fixed assets	5,565.1	4,790.7	774.3	16.2%
Equity investments	270.8	281.7	(10.9)	(3.9)%
Other non-current assets	637.0	630.6	6.5	1.0%
Employee severance indemnity and other defined benefit plans	(104.6)	(103.9)	(0.7)	0.7%
Provisions for risks and charges	(151.4)	(136.7)	(14.8)	10.8%
Other non-current liabilities	(391.1)	(348.2)	(42.9)	12.3%
Non-current assets and liabilities	5,825.8	5,114.2	711.5	13.9%

The change in intangible fixed assets is due to the investments, which reached € 792.8 million (+ € 161.9 million), and amortisations and value reductions, totalling € 409.6 million (+ € 42.7 million). The change in the consolidation area (gross of changes in the period) affected the increase of € 363.8 million. Finally, it should be noted that the item "tangible/intangible fixed assets" includes the increase resulting from the application of the new international standard IFRS 16 from 1 January 2019, which re-

sulted in the recognition of fixed assets with a net book value at 31 December 2019 of € 63.4 million (for further details, see the section entitled "Effects deriving from the introduction of new accounting standards").

Investments increased by € 161.9 million (+ 25.7%)

See the following table as regards the investments made in each Operating Segment.

Investments per operating segment

€ million	31/12/2019	31/12/2018	Change	% Change
ENVIRONMENT	51.9	20.0	31.9	159.6%
COMMERCIAL AND TRADING	42.5	24.6	17.9	72.6%
OVERSEAS	7.0	6.6	0.4	6.6%
WATER	380.1	329.7	50.4	15.3%
Integrated water service	378.4	329.5	48.9	14.8%
Others	1.7	0.2	1.5	n.s.
ENERGY INFRASTRUCTURE	287.8	238.3	49.4	20.7%
Distribution	265.7	218.4	47.2	21.6%
Generation	18.8	15.5	3.3	21.5%
Public Lighting	3.3	4.4	(1.1)	(25.9)%
ENGINEERING AND SERVICES	1.8	1.6	0.2	13.6%
Acea (Corporate)	21.7	10.0	11.7	116.3%
Total	792.8	630.8	161.9	25.7%

The **Environment Segment** recorded an increase in investments of € 31.9 million compared with the previous year. They refer mainly to: 1) the revamping of the Monterotondo Marittimo plant; the inauguration of the expansion of the plant for the

treatment of composting and anaerobic digestion waste took place on 10 October; 2) the works carried out at the WTE plants in Terni and San Vittore; 3) the works for the extension of the landfill located in Orvieto.

The **Sales and Trading Segment** recorded an increase of € 17.9 million mainly attributable to Acea Energia for investments related to the acquisition of new customers in accordance with IFRS 15 (€ 17.9 million), for IT implementation projects (€ 14.1 million) and for cloud licences that form the basis of the new Customer Relationship Management (€ 9.9 million).

The **Overseas Segment** recorded an increase of € 0.4 million compared to last year, mainly due to the investments made by Aguas de San Pedro for the expansion and extraordinary maintenance of the water and sewerage network in the areas managed.

The **Water Segment** made investments totalling € 380.1 million, with an increase of € 50.4 million mainly due to the consolidation of Gori and AdF, which contributed € 43.8 million and € 11.1 million respectively. These increases were partly offset by Acea Ato 2, which recorded a reduction in investments of € 8.7 million.

The main investments in the year include those relating to the work carried out for the reclamation and expansion of the water and sewerage pipes of the various Municipalities, the extraordinary maintenance of the water centres, the interventions on the treatment plants, works to reduce water leaks and improve relationships with users and the local region and on IT applications.

The **Energy Infrastructure Segment** recorded an increase in investments of € 49.4 million, mainly in areti (+ € 47.2 million), only partly offset by lower investments by Acea Produzione (- € 3.4 million). The investments in areti mainly refer to the renewal and upgrading of the MV/LV network and the development of TSIE Technology, Sustainability and Education Innovation projects (+ € 38.5 million), interventions on primary and secondary cabins and meters. We also note the purchase of the Via Flaminia headquarters (€ 2.8 million). Intangible investments refer to projects for the re-engineering of information and commercial systems. Investments made by Acea Produzione mainly concern plant revamping

works for the Mandela and Tor di Valle and Montemartini hydroelectric power plants; there were also static and functional upgrades of the tunnels deriving from the San Cosimato dam reservoir and the extension of the district heating network in the Mezzocammino district in the south of Rome.

The **Engineering and Services Segment** recorded purchases of equipment for the Grottarossa laboratory and investments in IT systems.

Acea **Corporate** made investments of € 21.7 million (+ € 11.7 million), which mainly refer to IT developments and investments in the company's operations. Group investments concerning shared IT infrastructure totalled € 41.6 million.

Equity investments decreased by € 10.9 million compared to 31 December 2018. The change is due to negative values. Among these we note:

- the valuation of companies consolidated using the equity method for a total of € 44.0 million, which shows a reduction of € 1.8 million compared to 2018;
- the effect in reduction of the distribution of dividends for € 19.9 million;
- the reduction due to the change in the scope of consolidation of € 37.7 million, due to the full consolidation of AdF previously valued using the equity method;
- changes with a positive sign of other comprehensive income for € 2.6 million.

The stock of **employee severance indemnity and other defined benefit plans** reported an increase of € 0.7 million, mainly due to the effect of the change in the scope of consolidation of AdF, partly offset by the decrease in the rate used (from 1.57% at 31 December 2018 to 0.77% at 31 December 2019).

Provisions for risks and charges increased by 10.8% compared to the previous year. Changes during the period are shown below:

€ million	31/12/2018	Uses	Provisions	Payment of Redundancy Funds	Reclassifications/ Other changes	31/12/2019
Legal	13.2	(1.1)	4.4	(2.1)	1.9	16.2
Taxes	10.7	(2.5)	0.7	0.3	0.1	9.3
Regulatory risks	26.6	(6.3)	7.3	(0.1)	0.1	27.6
Investees	7.7	0.0	0.0	0.0	(0.3)	7.5
Contributory risks	1.1	(0.1)	0.4	0.0	(0.0)	1.4
Insurance excess	9.6	(1.7)	3.0	0.0	(0.6)	10.3
Other risks and charges	23.5	(2.8)	4.2	(3.8)	4.1	25.2
Total Provision for Risks	92.3	(14.4)	20.0	(5.6)	5.2	97.5
Early retirements and redundancies	25.7	(24.5)	27.2	(0.8)	1.5	29.1
VAT Variation Notes	0.0	0.0	0.0	0.0	0.0	0.0
Post mortem	16.7	0.0	0.0	0.0	0.4	17.1
Provision for Settlement Charges	0.3	(0.2)	0.0	(0.0)	0.1	0.1
Provision for Charges of others	1.7	(1.3)	6.9	0.0	0.3	7.6
Total Provision for Charges	44.3	(26.0)	34.2	(0.8)	2.2	53.9
Total Provisions for Risks and Charges	136.7	(40.5)	54.2	(6.4)	7.4	151.4

The change in the scope of consolidation (gross of changes during the period) amounts to € 9.1 million. The other main changes in the period include:

- an increase of € 3.4 million in the provision set aside to cov-

er the costs deriving from the Group's mobility and subsidised personnel plan;

- an increase of € 5.9 million in the provision for charges to others, mainly attributable to Acea Ato 5 and relating to the pro-

vision of € 4.5 million resulting from the decisions made during the reconciliation between Optimal Territorial Area Authority no. 5 Southern Lazio - Frosinone) and Acea Ato 5 SpA as investments to be made without any tariff recognition, to be borne entirely by the Operator. For further information see the details discussed in the section "Conciliation Board with AATO 5" included in the section "Significant events for the 2019 financial year".

The net working capital is negative for € 656.2 million and dropped € 13.5 million compared to the end of 2018

The change in net working capital compared to 31 December 2018 is mainly due to items with an opposite sign like the increase in current receivables (+ € 107.6 million), of which € 71.9 million from users and customers, offset by an increase in current payables of € 75.4 million and other current liabilities of € 16.9 million, as well as a decrease in other current assets of € 37.4 million.

€ million	31/12/2019	31/12/2018	Change
Current receivables	1,035.5	927.8	107.6
<i>due from end users/customers</i>	935.1	863.2	71.9
<i>due to Roma Capitale</i>	86.7	52.5	34.2
Inventories	57.3	48.8	8.5
Other current assets	225.3	262.6	(37.4)
Current payables	(1,600.3)	(1,524.9)	(75.4)
<i>due to Suppliers</i>	(1,472.8)	(1,413.9)	(58.9)
<i>due to Roma Capitale</i>	(121.7)	(107.6)	(14.0)
Other current liabilities	(374.1)	(357.1)	(16.9)
Net working capital	(656.2)	(642.7)	(13.5)

Receivables from users and customers increased by € 71.9 million compared to 31 December 2018, of which € 57.0 million due to the change in scope. Gross of the allowance for doubtful accounts, these receivables increased by € 29.2 million: 1) an increase of € 73.5 million in receivables from the Water Segment, mainly due to the change in the scope of consolidation (+ € 51.7 million) and Acea Ato 2 (+ € 4.6 million); 2) an increase of € 19.0 million in receivables from the Energy Infrastructure Area, mainly due to the recognition of the income from the elimination of the regulatory lag, which amounted at 31 December 2019 to € 87.6 million (+ € 12.2 million), while the non-current portion relating to regulatory accounting, equal to € 91.1 million (+ € 11.1 million), is included under fixed assets; the change in the scope of consolidation related to the acquisition of the photovoltaic companies contributed to the increase in gross receivables for € 8.4 million; 3) the increase in receivables of the Environment Segment for € 7.1 million, mainly resulting from the change in the consolidation area following the consolidation of Demap (+ € 3.3 million) and Berg (+ € 2.7 million); 4) the decrease in receivables of the Commercial and Trading Segment for € 73.2 million resulting from the improved collection performance of Acea Energia.

Receivables from customers are shown net of the Provision for impairment of receivables, amounted to € 651.5 million compared to € 694.2 million at the end of 2018. The change is mainly due to Acea Energia (- € 43.6 million), in relation to uses for the period (- € 70.9 million) net of provisions and other changes (+ € 28.5 million). Receivables totalling € 1,370.6 million were transferred without recourse during 2019, of which € 204.5 million to the Public Administration.

Roma Capitale: net balance is positive for € 33.7 million

As regards the **relations with Roma Capitale**, the net balance at 31 December 2019 was € 33.7 million receivable by the Group, a reduction compared to 31 December 2018. The change in receivables and payables is due to the accrual of the period and the effects of compensations. In 2019, the stock of trade receivables recorded growth of € 34.2 million compared to the previous year, mainly due to the increase in receivables for water accounts.

As regards financial receivables, growth of € 44.6 million was recorded compared to the previous year, to be attributed to the accrual during the period of receivables relative to the Public Lighting service agreement, to the modernisation of security, to extraordi-

nary maintenance, to the LED plan agreement and to the works relating to the Public Lighting service.

Payables increased by a total of € 93.2 million. The main changes are listed below:

- recognition of the payable for Acea's share dividends accrued in 2018 of € 77.1 million, as resolved by the Shareholders in April 2019;
- registration of the portion accrued in the year for the concession fee of Acea Ato 2 for € 25.0 million;
- inclusion of the debt for Acea Ato 2 security dividends accrued in 2018 equal to € 2.4 million;
- reduction in payables relating to authorisations for excavations defined as new road cables regulations for - € 2.6 million;
- decrease in the Acea Ato 2 concession fee for 2016 for a total of € 85 million following payment through compensation.

Note that in April 2019 areti paid the Cosap for the current year worth € 1.4 million.

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

On 26 February 2019 the General Management of the Municipality of Rome sent a communication stating that it had taken note of the objections raised by the technical department and the lack of recognition thereof by the Acea Group, and in order to find a complete resolution of the differences it proposed setting up a Joint Technical Committee with the Acea Group that could resolve the mutual claims.

Following several meetings, on 18 October 2019 the Joint Technical Committee drew up a report on the closure of the work, highlighting the results that emerged and proposing a favourable restart of the ordinary execution of the mutual obligations between the Acea Group and Roma Capitale. As a first step after the completion of the work, the parties took steps to implement the results that emerged from the discussions, restarting the payment of their respective receivables and payables.

In particular, between December 2019 and March 2020 the following offsets were made for a total of € 39.3 million; the types of receivables concerned are listed below:

- December 2019: receivables for € 7.2 million relating to water services for the years 2009-2014 in exchange for the Acea Ato 2 concession fee;
- December 2019: receivables for € 1.3 million mainly for works for the completion of the water and sanitary network for 2009 and water service contract for 2018 in exchange for the Acea Ato 2 concession fee;
- February 2020: receivables for Public Lighting for € 10.5 million referring to 2018 and 2016-2018 pro-rata amounts in exchange for Acea's share dividends for the year 2018;

- March 2020: receivables for € 20.4 million relating to water services for the years 2017-2018 in exchange for the Acea Ato 2 concession fee.

Also note that in December 2019 Roma Capitale approved its Consolidated Financial Statements as at 31 December 2018, including for the first time the Acea Group in this scope of consolidation.

The following tables also provide a breakdown of Group receivables/payables due from/to Roma Capitale.

Amounts due from Roma Capitale

€ million

	31/12/2019	31/12/2018	Change
Utility receivables	90.6	55.6	34.9
Provisions for write-downs	(9.3)	(9.3)	(0.0)
Total receivables from users	81.2	46.3	34.9
Receivables for water works and services	2.5	3.3	(0.8)
Receivables for water works and services to be invoiced	1.5	1.5	(0.1)
Contributions	0.0	0.0	0.0
Provisions for write-downs	(1.9)	(1.9)	0.0
Receivables for electrical works and services	3.8	3.6	0.2
Provisions for write-downs	(0.3)	(0.3)	(0.0)
Total receivables for works	5.5	6.2	(0.7)
Total trade receivables	86.7	52.5	34.2
Financial receivables for Public Lighting services billed	138.8	99.1	39.7
Provisions for write-downs	(30.2)	(30.2)	(0.0)
Financial receivables for Public Lighting services to be billed	39.2	25.7	13.5
Provisions for write-downs	(15.0)	(9.8)	(5.1)
M/L term financial receivables for Public Lighting services	15.2	18.7	(3.5)
Total Public Lighting receivables	148.2	103.5	44.7
Total Receivables	234.9	156.0	78.9

Payables due to Roma Capitale

€ million

	31/12/2019	31/12/2018	Change
Electricity surtax payable	(15.3)	(15.3)	0.0
Concession fees payable	(96.4)	(79.8)	(16.6)
Other payables	(10.1)	(13.0)	2.9
Dividend payables	(79.5)	0.0	(79.5)
Total payables	(201.2)	(108.1)	(93.2)
Net balance receivables payables	33.7	47.9	(14.3)

Current payables increased by € 75.4 million

Current payables increased by € 75.4 million compared to the end of 2018 due to the increase in trade payables (+ € 58.9 million), mainly due to the change in the scope of consolidation (+ € 45.4 million) largely relating to AdF (+ € 34.6 million) and payables to parent company for € 14.0 million primarily attributable to Acea Ato 2 (+ € 16.6 million) for payables to Roma Capitale relating to the concession fee. The **other current assets and liabilities** recorded a decrease of € 37.4 million and an increase of € 16.9 million respectively compared to last year. More specifically, other assets decreased as a result of the reduction in receivables from the energy equalisation compensation fund (- € 22.7 million) and receivables for fair value of commodities (- € 8.6 million). As regards the increase in other current liabilities, the change in the scope of consolidation accounted for € 31.9 million, of which € 16.5 million for payables relating to the acquisition of equity investments in the photovoltaic sector.

There was also an increase in payables to Municipalities (+ € 10.4 million), in payables to the Equalisation Fund (+ € 7.5 million) partly offset by the reduction in payables for IRES and IRAP (- € 15.6 million).

Shareholders' equity amounted to € 2.1 billion

The **net shareholders' equity** amounted to € 2,106.7 million. The changes, amounting to € 203.2 million, are analytically described in the relevant table and are basically due to the distribution of dividends, the accrual of period profits, the change in the area of consolidation and the change in the cash flow hedge reserves and those formed by actuarial profits and losses.

Net financial debt increased by € 494.8 million compared to the end of 2018

Group **debt** recorded an overall increase of € 494.8 million, going from € 2,568.0 million at the end of 2018 to € 3,062.8 million

lion at 31 December 2019. This change is a direct consequence of the growing increase in investments made during the period, including those of a technological nature, and of the dynamics of the operating cash flow. The financial liability relating to the application of IFRS 16 (from 1 January 2019) for € 64.3 million contributed to the increase in debt. With regard to the change in the

scope of consolidation, the new consolidation of AdF contributed € 89.6 million, that of Pescara Distribuzione Gas € 7.1 million and the new companies in the Environment Segment (Berg and Demap) a total of € 0.8 million. Moreover, the increase is also due to the as yet unpaid 2018 dividends from Roma Capitale for € 77.1 million.

€ million	31/12/2019	31/12/2018	Change	% Change
Non-current financial assets/(liabilities)	2.4	1.8	0.5	29.5%
Parent company, subsidiaries and associates current financial assets/(liabilities)	26.2	30.9	(4.7)	(15.2)%
Non-current borrowings and financial liabilities	(3,551.9)	(3,374.1)	(177.8)	5.3%
Net medium/long-term debt	(3,523.4)	(3,341.4)	(181.9)	5.4%
Cash and cash equivalents and securities	835.7	1,068.1	(232.4)	(21.8)%
Short-term debt	(541.9)	(351.8)	(190.1)	54.0%
Current financial assets/(liabilities)	111.5	(29.0)	140.5	n.s.
Parent Company and Associates non-current financial assets/(liabilities)	55.3	86.1	(30.8)	(35.8)%
Short-term financial position	460.5	773.4	(312.8)	(40.5)%
Total net financial position	(3,062.8)	(2,568.0)	(494.8)	19.3%

As regards the **medium/long-term component**, the increase of € 181.9 million compared to the end of 2018 refers almost exclusively to € 177.8 million for the increase in non-current payables and financial liabilities.

This change derives from the increase in bonds for € 75.9 million and in the increase in non-current financial payables and liabilities for € 101.8 million, as shown in the following table:

€ million	31/12/2019	31/12/2018	Change	% Change
Bonds	2,754.3	2,678.4	75.9	2.8%
Medium/long-term borrowings	797.6	695.7	101.8	14.6%
Medium/long-term debt	3,551.9	3,374.1	177.8	5.3%

Bonds of € 2,754.3 million increased by a total of € 75.9 million mainly due to the combined effect of the placement of the bond issued in May 2019 by the Parent Company under the Euro Medium Term Notes (EMTN) programme (€ 493.3 million including the long-term portion of the underwriting costs) and the reclassification of the bond issued by the Parent Company and maturing on 16 March 2020 as a short-term position (€ 422.7 million including the residual portion of the underwriting costs).

Medium/long-term loans of € 797.6 million saw an overall increase of € 101.8 million due to the combined effect of the recog-

nition of the medium/long-term portion of the financial liability relating to the application of IFRS 16 amounting to € 51.7 million and the newly-consolidated AdF for € 114.2 million and the new photovoltaic companies for € 7.5 million, from the acquisition of Pescara Distribuzione Gas for a total of € 1.2 million offset by the reduction of the Parent Company for € 41.0 million for the reclassification of the shares maturing in the following financial year for existing loans.

The following table shows medium/long-term and short-term borrowings by term to maturity and type of interest rate:

Bank Loans				
€ million	Total Residual Debt	By 31/12/2020	from 31/12/2020 to 31/12/2024	After 31/12/2024
fixed rate	227.2	25.8	137.2	64.3
floating rate	583.1	47.9	288.5	246.6
floating rate to fixed rate	17.7	8.3	9.3	0.0
Total	827.9	82.0	435.1	310.8

The fair value of Acea hedging derivatives was a negative € 1.0 million, decreasing by € 1.0 million compared to 31 December 2018 (was a negative € 2.1 million), while that of AdF was negative for € 4.1 million.

The short-term component was positive for € 460.5 million, a reduction of € 312.8 million

The **short-term** component is positive for € 460.5 million and, compared with the end of 2018, showed a reduction of € 312.8 million due for € 232.4 million to the reduction in cash and cash equivalents, of which € 290.4 million relating to the Parent Company offset by the change in the scope of consolidation. The rec-

ognition of the short-term portion of the financial liability relating to the application of IFRS 16 is € 12.8 million.

The Acea rating

At 31 December 2019 the Parent Company held unused uncommitted credit lines totalling € 628 million. No guarantees were granted in obtaining these lines.

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

- Fitch “BBB+”;
- Moody’s “Baa2”.

REFERENCE CONTEXT

The Acea Group monitors the scenario of reference – internal and external – intercepting and analysing the factors assuming relevance for the company and which can affect the pursuit of strategic goals. In particular, the corporate sustainability, normative, regulatory, technological, competitive, market and environmental settings represent different aspects integrated into an overall framework,

which outlines the context within which management activities and the outlook of the organisation are to be included. These are supplemented by the context within the Group – in terms of energy and environmental impacts, development of human capital, protection of workers' health and safety – and management of the supply chain.

PERFORMANCE OF THE EQUITY MARKETS AND THE ACEA SHARE

In 2019, the international stock markets performed positively overall, recovering the losses reported in the first months of the year and at the end of 2018. European prices were mainly influenced by political issues (European elections, Brexit), while the US stock exchange was mainly affected by the evolution of trade tensions between the US and China.

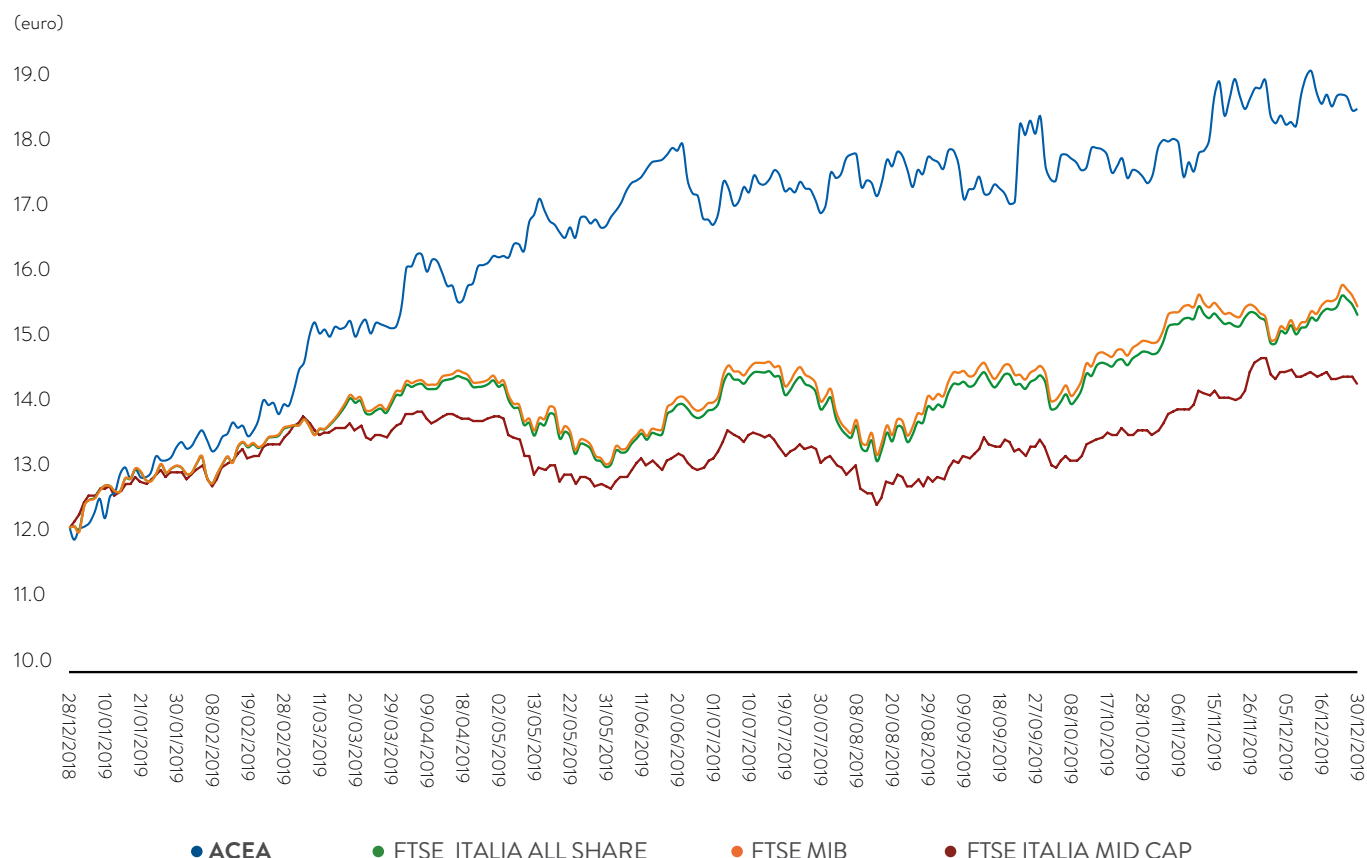
Acea shares performed well with 53.5% growth, significantly outperforming the market (FTSE Italia All Share +27.2%). In detail, the closing price on 30 December (last trading session in 2019) was € 18.44 (capitalisation € 3,927 million).

The maximum value of € 19.02 was reached on 12 December, while the minimum value of € 11.82 was reached on 2 January. During the period under analysis, average daily volumes were around 157,000 shares, higher than the 116,000 in 2018.



(Source: Bloomberg)

The following graph shows re-based figures for Acea's share price, compared to Stock Market indices.



(Chart normalised to Acea values - Source: Bloomberg)

% Change at 31/12/2019 (compared to 31/12/2018)

Acea	+53.5%
FTSE Italia All Share	+27.2%
FTSE Mib	+28.3%
FTSE Italia Mid Cap	+18.3%

145 reports/notes were published on Acea shares in 2019.

ENERGY MARKET

In 2019, electricity demand in Italy (equal to 319,597 GWh)³ increased by 0.6% compared to the same period of the previous year. 88.8% of electricity requirements were covered by national (Italian) production and the remaining share, amounting to 12.2%, was covered by imports from abroad (balance of imports down by 13.1% compared to last year). The net national production (238,846 GWh) showed an increase of 1.4% compared to 2018. Specifically, electricity produced from thermal production sources increased by

1.3%, as did electricity produced from wind systems (- 14.3%) and solar systems (+ 9.3%), while energy produced by water (- 5.9%) and geothermal sources (- 1.2%) dropped.

With regard to the results of the Italian electric power market, volumes traded in Italy grew only slightly on an annual basis (+0.1%) to 295.8 TWh.

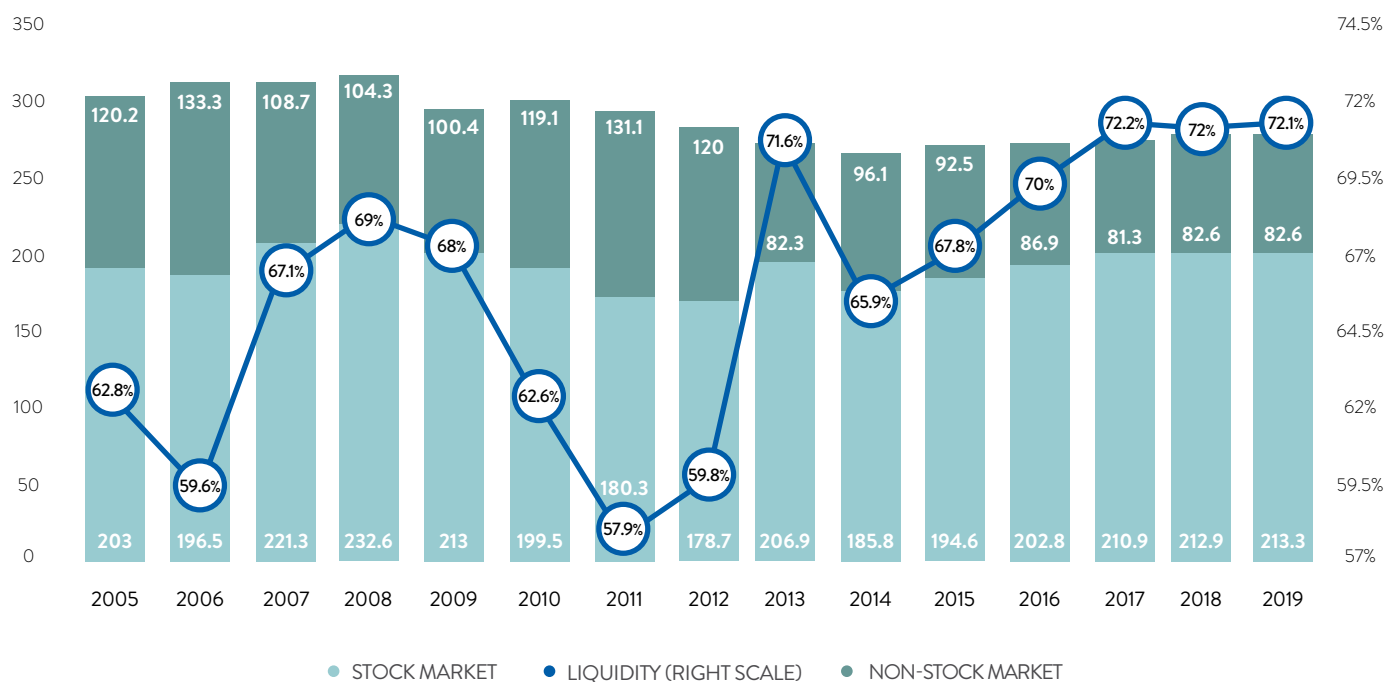
Volumes traded on the power exchange increased by 0.2% to 213.3 TWh, while volumes traded over the counter, recorded on the PCE and named on the MGP, decreased to 82.6 TWh (- 0.1%).

The market's liquidity thus stood at 72.1%, remaining stable for the third consecutive year at an all-time high, increasing by 0.1% over 2018.

³

Source: Terna - December 2019, monthly report on the electricity system.

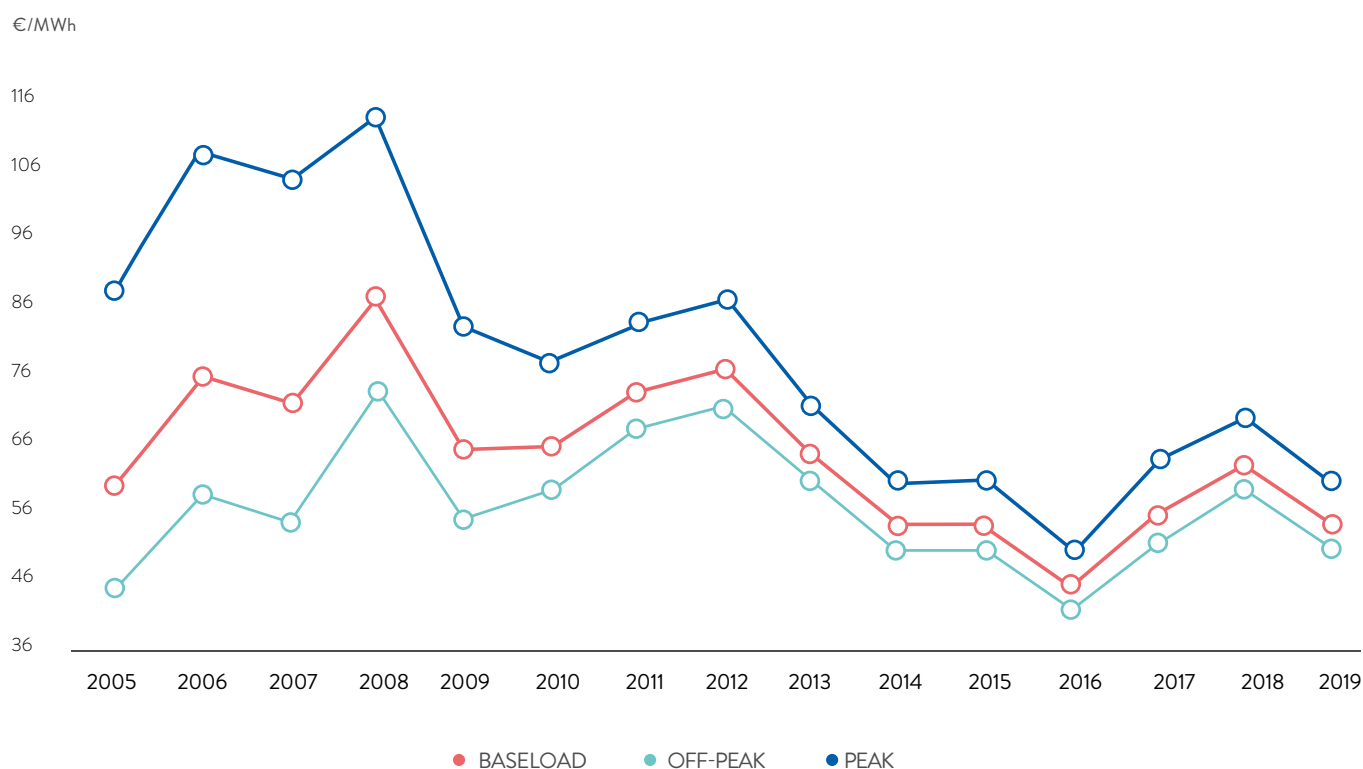
LIQUIDITY ON THE DAM⁴



During 2019, the average energy purchase price (PUN) recorded an average value of € 52.32/MWh, down by € 8.99/MWh compared to 2018 (- 14.7%). An analysis of hourly segments showed downward trends both in off-peak hours, where there was a decrease of € 8.79/MWh (- 15.3%) and in peak hours, where there was a decrease of € 9.35/MWh (- 13.7%). Prices stood at € 48.7/MWh and € 59.12/MWh respectively. The peak/baseload price ratio was 1.13 (+ 0.01 compared to 2018).

crease of € 8.79/MWh (- 15.3%) and in peak hours, where there was a decrease of € 9.35/MWh (- 13.7%). Prices stood at € 48.7/MWh and € 59.12/MWh respectively. The peak/baseload price ratio was 1.13 (+ 0.01 compared to 2018).

DAM: NATIONAL SINGLE PRICE (PUN)⁵



Zone sales prices range from € 50.89/MWh in the South to € 62.77/MWh in Sicily.

There was a clear annual reduction in sales prices and an alignment in the peninsular areas and in Sardinia at a value of € 51-52/MWh.

⁴ Source: Terna - December 2019, monthly report on the electricity system.
⁵ Source: Energy Market Operator (GME) December 2019 Newsletter.

DAM: SALE PRICES⁶



Domestic purchases totalled 289.0 TWh, down 1.0%. The analysis by area shows a reduction in purchases in the North (- 1.5%) and in Sicily (- 1.9%).

Purchases of energy in foreign areas (exports), amounting to 6.8 TWh, grew sharply (+82.6%) to one of the highest levels recorded to date. The sales of electricity produced nationally reached 250.7 TWh, a decisive increase compared to a year ago (+ 1.3%).

The changes observed, in particular in the Centre North (+ 4.9%), Sardinia (+ 2.3%) and the South (+ 1.9%) were offset by decreases in the Centre South (- 4.2%).

Energy sales in foreign areas (imports) dropped, reaching 45.1 TWh (- 6.1%).

from the reference tariff for determination of the restriction on revenue permitted to each company (the reference tariff).

The compulsory tariffs for the year 2019 were published with resolution 671/2018/R/eel on 18 December 2018.

The rules in force in the new regulatory period include:

1. Regulatory lag and return on invested capital;
2. Extension of regulatory useful life;
3. Tariff adjustment criteria: cost coverage, measurement.

With regard to the first point, the ARERA has changed the manner for offsetting the regulatory lag, recognising new investments made both for Distribution and for measurement (no retroactivity).

The criterion based on the increase in the investment rate of return granted to new investments, equal to 1% (year t-2), has been replaced by recognition in the capital base (RAB) also of the investments made in year t-1, evaluated on the basis of pre-final data communicated to ARERA. These data will be used for the determination of the provisional tariffs of reference published by 31 March and then replaced by the final data for the determination of the definitive tariffs of reference published by February of the following year. On 5 March 2019, the ARERA published the definitive reference tariff for the electricity distribution service for the year 2018 with resolution 76/2019/R/eel.

On 2 April 2019, the ARERA published the provisional reference tariff for the electricity distribution service for the year 2019 with resolution 117/2019/R/eel. In the year t, the ARERA only recognises the remuneration of the invested capital concerning the assets which entered use in the year t-1, without recognising the relevant amortisation rates (which are still recognised in the year t-2).

With reference to depreciation recognised in the tariff, the new regulation increases the useful regulatory life of certain assets, such as HV electric lines (increased from 40 to 45 years), MV and LV lines and “end users’ connection points” (from 30 to 35 years).

TRANSPORT SERVICE TARIFFS

2019 was the fourth year of the new regulatory period, the term of which has been increased from four to eight years (2016-2023) divided into two sub-periods: the first four with method continuity, the method for the others to be subsequently implemented.

“Integrated Text of dispositions of the Authority for supplying electricity transmission and distribution services (TIT)”, Annex A to resolution 654/2015/R/eel, the “Integrated Text of dispositions of the Authority for the supply of the electricity metering service (TIME)”; Annex B to resolution 654/2015/R/eel, and the “Integrated Text on dispositions of the Authority for the economic conditions for supplying connection services (TIC)”, Annex C to resolution 654/2015/R/eel, published on 23 December 2015.

For the distribution service, ARERA confirmed unbundling of the tariff applied to end customers (the so-called compulsory tariff)

With resolution 639/2018/R/COM of 6 December 2018, ARERA updated the values of the parameters used to calculate the rate of return on net invested capital (WACC) for the three-year period 2019-2021, establishing a value of 5.9% for the distribution service. In terms of operating costs, the new company-based tariff covers the specific costs by means of a national average cost adjustment coefficient, calculated by the ARERA on the basis of actual company costs and on the basis of scale variables.

These costs, when calculating the company-based tariff, according to the definitions of Resolution no. 654/2015, are supplemented by flat rate connection contributions acknowledged throughout Italy, and will be considered as other grants and no longer deducted from operating costs.

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

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

- the part of the tariff hedging the operating costs be updated using the price-cap mechanism (with the goal of a 1.9% recovery of productivity);
- the part hedging the costs concerning the remuneration of the invested capital be updated through the deflator of the fixed gross investments, the change in the volume of service provided, the gross investments that are operational and differentiated by level of voltage and rate of change connected to the increased remuneration recognised for incentivised investments;
- the part hedging the amortisations be updated through the deflator of the fixed gross investments, the change in volume of service provided, the rate of change connected to the reduction in the gross invested capital due to disposal, withdrawal and end of useful lifetime and the rate of change connected to the investments that are now operational.

With the consultation documents 318/2019 and 481/2019 published respectively on 23 July and 22 November 2019, ARERA revised the criteria for the infra-period update of the regulation on transmission, distribution and measurement.

In particular, guidelines are given for updating the methods for determining the cost recognised to cover operating costs and for refining certain aspects of infrastructure regulation for transmission service. With regard to this document, on 30 September 2019 the detailed data requested by ARERA concerning the costs of the 2016-2018 Unbundling Financial Statements were provided in order to redetermine the level of Opex for the next regulatory period.

The ARERA confirms for 2019 the mechanism, already introduced in the third regulatory period, for the higher remuneration of certain categories of investments made until 2015, not extending this mechanism also for the 2016-2023 cycle.

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

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

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

- equalisation of the revenues from the distribution service;
- equalisation of metering revenues;
- equalisation of the transmission costs;

- equalisation of the value of the difference between effective losses and standard losses.

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

The equalisation of transmission costs is aimed at making the cost recognised to Terna for the transmission service (CTR) pass through the distributor, with the amount paid by end customers through the mandatory transmission tariff (TRAS).

With resolution 677/2018/R/eel of 18 December 2018, ARERA confirmed for the year 2019 the values of the agreed percentage loss factors to be applied to withdrawals, feed-in and interconnections between networks in Table 4 of the TIS, and initiated a procedure to finalise the regulation of losses with particular reference to the mechanism for equalisation of the same applied to distribution companies. This standard loss factor per company has been divided between technical and commercial losses.

On 19 December, Resolution no. 559/2019/R/eel confirmed the standard loss values to be applied to withdrawals, injections and interconnections between networks referred to in Table 4 of the TIS for the year 2020, and the Authority extended the deadline for the conclusion of the proceedings initiated by Resolution no. 677/2018/R/eel to 30 May 2020.

On 2 April, with Circular no. 6/2019/ELT, CSEA published the application to participate in the mechanism for mitigating the process of increasing the efficiency of commercial losses, pursuant to art. 26 of annex A to Resolution 301/2012/R/eel (TIV).

On 30 April, areti presented the information requested in the application form, declaring that it had implemented targeted actions to identify and contain commercial losses during the three-year period under evaluation (starting with the equalisation for the year 2016).

On 1 August, CSEA communicated the positive outcome of the application confirming the non-applicability of the amount established by paragraph 26.1 (TIV) to be settled due to the containment of commercial losses for each distribution company.

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

In the new Transport Integrated Text, the ARERA has confirmed the mechanism of advance recognition on a two-monthly basis, of equalisation balances for revenue from the distribution service and transmission costs. With letter no. 8293 dated 27 May 2019, CSEA communicated the amount of these advance payments expected for the year 2019.

The Measurement Integrated Text (TIME) governs tariffs for the metering service, divided into meter installation and maintenance, taking meter readings, confirming and recording readings. The structure of the fees has been changed compared to the previous regulatory period only with regard to the fees for collection and validation of meter readings, previously broken down and now unified into a single fee.

The ARERA has introduced a new method of recognising the capital costs for low voltage electronic meters, for firms serving more than 100,000 grid points, based on criteria for determining the investments effectively realised by the single firms and retaining the criterion of calculating the measurement service tariffs on the basis of the national costs for the remote management systems and the electromechanical devices still being used (residual cost), also retaining the measurement equalisation for the fifth regulatory cycle. The equalisation mechanism is intended to equalise the revenue from the comparison of the obligatory tariffs billed to end users and the revenue valorised in the reference tariff.

On 5 March 2019, the ARERA published the definitive reference tariff for the electricity metering service for the year 2018 with resolution 76/2019/R/eel.

On 2 April 2019, the ARERA published the provisional reference tariff for the electricity metering service for the year 2019 with resolution 117/2019/R/eel.

The tariffs hedging the measurement service are updated, as are those for the distribution service, using the price-cap mechanism for the part hedging the operating costs (with the goal of a 1% recovery of productivity) and with the deflator, variation in invested capital and rate of change of the volumes supplied for the part hedging the invested capital and amortisations. The rate of remuneration of the measurement capital is the same as that for the distribution service.

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

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

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

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

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

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

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

On 27 December, with Resolution no. 568/2019/R/eel, the Authority updated the tariff regulation for electricity transmission, distribution and metering services for the 2020-2023 regulatory period.

The “Integrated Text on dispositions of the Authority for the economic conditions for supplying connection services (TIC)”, Annex C to Resolution 654/2015/R/eel, governs the economic terms for the provision of connection services and specific services (transfers of network equipment requested by end users, contract transfers, disconnections, etc.) to paying end users, essentially in line with the previous regulatory period.

THE ITALIAN WASTE MANAGEMENT MARKET

The current situation of production and treatment capacity for waste in the traditional operational areas of the Acea Group and in the neighbouring areas shows a high “potential demand” for waste management (disposal in landfills, waste-to-energy, composting and biogas production, sludge and liquid waste treatment, recycling of mixed materials and production of secondary raw materials). This is facilitated by a national regulatory framework that provides incentives, by European directives on the recovery of materials and energy and by the European Union’s policy guidelines on the circular economy (closing the loop), which are being implemented at the national level by virtue of a delegated law that has given the government the obligation to update environmental legislation – adapting it to the new EU standards – by 2020. Opportunities for developing the sector are therefore highlighted, also facilitated by the availability of new technologies (for example in composting) and by possible forms of industrial integration with other operators.

WATER REGULATION

The following paragraphs illustrate the main developments that took place during 2019, both with regard to the regulatory framework of reference and, more in detail, with regard to sector regulations.

SECTOR REGULATIONS

During the period of reference the main focus of regulatory developments was the issue of water infrastructure, with the enactment of various measures aimed at promoting and supporting investments in order to overcome the sector’s infrastructure gap.

In February 2019, the Italian Prime Ministerial Decree of 28 November 2018 “Allocation of the resources of the Fund for Infrastructure Investment and Development of the Country, referred to in article 1, paragraph 1072, of Italian Law no. 205 of 27 Decem-

ber 2017” was published in the Official Gazette (General Series no. 28 of 2/2/2019). The measure provides for the distribution of the Fund for financing the country’s development of investments and infrastructure among the state’s central administrations, as specified in the list attached to it. With regard to the integrated water service, the resources envisaged are reported in letter “c) infrastructure, including the water network and sewerage and purification works”, with the relevant Central Administrations, the Ministry of Agricultural Policies and the Ministry of Infrastructure and Transport; the overall total for the period 2018-2033 amounts to over € 790 million. For the purposes of assessing the progress of the programmes financed and the main critical points encountered in the implementation of the interventions, by September 15 of each year each Ministry must send a special report to the Presidency of the Council of Ministers, the Ministry of Economy and Finance and the relevant parliamentary committees.

In the following month, on the other hand, the adoption of the Extraordinary Plan for the implementation of projects in the water sector was published in Official Gazette no. 67 of 20 March 2019, by interministerial decree no. 526 of 6 December 2018 of the Ministry of Infrastructure and Transport in agreement with the Ministry of Agricultural Policies, referring to the MIT homepage for the text of the measure. The Extraordinary Plan adopted pending the definition of the National Plan for projects in the water sector (Italian Law 205/2017 art. 1, paragraph 23) includes 30 projects in the final and executive planning stage (for a total value of about € 250 million) concerning multi-objective reservoirs and water saving in agricultural and civil uses.

With regard to the National Plan for projects in the water sector, as per art. 1, paragraph 516 of Italian Law no. 205/2017, the decree of the Italian Prime Minister of 17 April 2019 “Adoption of the first excerpt of the National Plan for projects in the water sector – reservoir section” was published in Official Gazette no. 148 of 26 June 2019. The National Plan, which was to be adopted within 120 days of the date of entry into force of Italian Law 205/2017, may also be approved by means of one or more decrees of the President of the Council of Ministers and is to be updated, as per regulation, every two years, taking into account the state of progress of the projects carried out, existing plans and new necessary and urgent projects. ARERA had issued a favourable opinion on the draft measure with comments (Opinion 160/2019). There are a total of 57 projects included in the adopted excerpt, divided into two groups based on the type of public resources allocated: 30 works for an overall total of € 200 million financed with resources referred to in article 1, paragraph 1072 of Italian Law 205/2017, while the remaining 27 works for an overall total of € 60 million draw on resources referred to in article 1, paragraph 155 of Italian Law 145/2018. These include the design and construction of important water interconnections, the completion or adaptation of dams and major works to make aqueducts safe, with those carrying out the projects including both operators regulated by ARERA and entities of a different nature (Regions, Basin Authorities, Land Reclamation Consortia). In particular, it is important to note the inclusion in the projects listed in Annex 1 of the work “Safety measures for the Peschiera – Marcio aqueduct systems. 1st lot of water collection works”, for an amount of € 5 million, whose project status is specified as preliminary. The Italian Prime Ministerial Decree also sets out the procedures for the implementation of the projects through special agreements between the parties involved and the General Management for Dams and Water and Electricity Infrastructure pertaining to the MIT; monitoring will be carried out through the public works monitoring system of the Public Administration Database, pursuant to Italian Legislative Decree 229/2011. Finally, it is specified that for technical-administrative support, the design and execution of the projects and for related monitoring the party carrying out the

project may make use of public bodies and in-house State companies with specific technical expertise pursuant to article 1, paragraphs 523 and 523 bis of Italian Law no. 205/2017. With regard to the reservoirs section, subsequent Italian Ministerial Decree 345/2019 of the MIT (notice of publication in the Official Gazette 247 of 21 October 2019) adopted the indicators for the assessment of projects and the criteria for the allocation of resources between District Basin Authorities; these allocation criteria are subject to verification and revision when the national plan is approved and may also be subject to revision when the plan is updated.

With regard to the aqueducts section of the National Plan, the Prime Minister’s Decree “Adoption of the first excerpt of the National Plan for projects in the water sector – aqueducts section” was published in Official Gazette no. 226 of 26 September 2019, which confirms the 26 projects identified by ARERA in its Report no. 252/2019/I/IDR (for a total value of € 80 million for the two-year period 2019-2020) and gives the Authority the task of establishing its own measures to regulate the conditions, terms and methods of disbursement of resources for the implementation of the projects. With resolution 425/19 of 25 October 2019, ARERA subsequently approved these regulations. The works will be financed with the appropriation envisaged in art. 1, paragraph 155, of Italian Law no. 145/2018 (€ 100 million per year for the years from 2019 to 2028, of which € 60 million per year for the “reservoirs” section), and their monitoring will be carried out, pursuant to art. 1, paragraph 524, of Italian Law no. 205/2017, also through the public works monitoring system of the Public Administration Database.

On 13 November 2019, the Cassa per i Servizi Energetici e Ambientali (CSEA) published Circular no. 37/2019/IDR concerning the requirements for the payment of the first instalment on account for the implementation of the first part, and with resolution no. 512/2019 of 3 December 2019 ARERA authorised CSEA to pay the advance payment for the projects found to be eligible based on the outcome of assessments of the needed requirements.

It should also be noted that the expected Prime Minister’s Decree on the Water Works Guarantee Fund, a measure envisaged by the Environmental Annex (Italian Law 221/2015) to the Italian 2016 Stability Law, has finally been published. Prime Minister Decree 30/05/2019 (published in Official Gazette no. 168 of 19 July 2019) identifies the priority projects and the criteria for the use of the Guarantee Fund, which will support the financeability of the investments in compliance with the management methods defined by ARERA through the granting of guarantees directly to the operators of the integrated water service and concessionary operators of large or small dams or, alternatively, through the granting of direct repayment guarantees for the debt owed to lenders or investors by operators. The guarantees will be allocated – with priority for drinking water use – to the implementation of the projects envisaged in the National Water Plan, projects not yet financed and started that qualify as necessary for the adaptation of water infrastructure to technical quality parameters, and projects concerning small dams not included in the National Plan. The Fund must be financed by the specific UI4 tariff component introduced by resolution ARERA 8/2020 “Definition of the management methods of the water works guarantee fund” as of 1 January 2020 and equal to 0.4 cent/€ per cubic metre, which must be specified separately in the bill. In December, the Decree of the Ministry of the Economy of 19 November 2019 “Criteria, conditions and methods of the State guarantee assisting the projects of the Guarantee Fund pursuant to article 58, paragraph 1, of Italian Law no. 221 of 28 December 2015” (OG no. 293 of 14 December 2019) was published. The measure, envisaged under article 6 of Prime Ministerial Decree 30/05/2019, governs the procedures for requesting the enforcement and payment of the State’s guarantee of last resort, which operates in the event of default by the Guarantee Fund for water works up to the amount owed by the Fund for the guarantee

granted. The methods for monitoring potential impacts on the State's guarantee of last resort are also defined. In particular, the CSEA will report annually to the MEF on the economic and financial equilibrium of the Fund and its sustainability. If economic and financial imbalances emerge that could compromise the Fund's sustainability, the MEF may propose to the CSEA and the MIT the adoption of measures aimed at limiting the potential impacts on the State guarantee of last resort and on public finance. If these measures are not appropriate, the operation of the State guarantee may be suspended until the imbalances are overcome.

A further measure related to the issue of infrastructure and specifically with regard to the IWS of dams is the DM-MIT 430/2019, in force since 21 November 2019, relating to the creation of the national computer archive of public works (AINOP) as established by Italian Law 130/2018 (so-called Genoa Decree). The ministerial decree defines the timing and phases with which the sharing of data and information is to begin, creating a census of Public Works with the aim of ensuring constant monitoring of the state and the degree of efficiency, as well as facilitating the process of planning and financing upgrading and maintenance projects. Moreover, a permanent technical roundtable was established at MIT to coordinate the process and the way in which the AINOP is updated. Its members must be appointed within 60 days of the decree coming into force. The organisation and operation of the roundtable will be defined within 30 days of its establishment by a specific provision.

Finally, again on the subject of infrastructure, it should be noted that the Ministry of Infrastructure and Transport announced through a bulletin that it established a technical-political roundtable with the Regions, ANCI and UPI, coordinated by the Honourable Daga, which met for the first time in February. The roundtable aims to make the best use of funds to mitigate droughts and to create greater synergy between the projects involving large reservoirs and related adduction and derivation works and those relating to aqueducts. In particular, its purpose is to carry out a survey of the resources available for interventions on reservoirs and aqueducts and discuss with local and regional authorities the criteria for the allocation of funds and the monitoring of the guarantee fund for water works.

With specific regard to the sewer-purification sector and in particular the problems related to compliance with EU regulations, with Italian Law no. 55 of 14 June 2019, published in the Official Gazette of the General Series no. 140 of 17 June 2019, the so-called Re-Open the Building Sites Decree was converted (Decree Law no. 32 of 18 April 2019 "Urgent provisions for the relaunch of the public contracts sector, for the acceleration of infrastructural projects, urban regeneration and reconstruction following seismic events"). In addition to establishing the partial suspension of the Procurement Code until 31 December 2020 and the postponement of the obligation to tender for concessions, the measure introduced new rules on End of Waste, and, with specific reference to the integrated water service, envisaged the extension of the powers of the single extraordinary commissioner for purification, established by article 2, paragraph 1, of Decree Law no. 243/2016, which are extended to all infringement procedures related to the violation of the relevant Community provisions and in particular to procedures no. 2014/2059 and 2017/2181. The measure also ordered the termination – within 60 days of the date of entry into force of the converted Decree Law – of the extraordinary commissioners appointed in accordance with article 7, paragraph 7 of Italian Decree Law no. 133/2014 and the taking over by the Single Commissioner in all legal relations; a decree of the Italian President of the Council of Ministers – on the proposal of the MATTM – is also expected to be issued, which will identify the projects for which the Single Commissioner will assume the task of implementing entity, as well as the financial resources necessary to ensure compliance with the judgements of the European Union Court of Justice

in cases C-565/10 and C-85/13. Under the same Prime Ministerial Decree, the powers of the Single Commissioner may also be extended to further agglomerations subject to infringement proceedings. It should also be noted that Italian Law no. 117/2019 "Delegation to the Government for the transposition of European directives and the implementation of other acts of the European Union – European Delegation Law 2018" (published in Official Gazette no. 245 of 18 October 2019), in implementation of EU Directive 2018/850, calls for the revision of the criteria for the acceptance of waste in landfills and the adoption of new organic regulations on the use of sludge, also amending the provisions of Italian Legislative Decree no. 9/1992 in order to ensure the achievement of the landfill objectives set by European legislation. Among the aims, the adaptation of the regulations to new technical-scientific knowledge on pollutants, the promotion of innovation, with a focus on the recovery of nutrients and in particular phosphorus, the guarantee of the management and use of sludge in conditions safe for man and the environment. Specific regional sewerage sludge management plans will be drawn up as part of the regional special waste management plans, aimed at closing the sludge cycle in accordance with the principles of proximity and self-sufficiency. With regard to the protection of users and in particular fragile users, a number of significant provisions were issued by the so-called fiscal decree and the 2020 Budget Law.

In December 2019, with Italian Law no. 157/2019 (so called Fiscal Decree) "Urgent provisions on tax matters and for non-deferrable needs", published in Official Gazette no. 301 of 24 December 2019, important new provisions were issued in relation to the social water bonus, extending it to the beneficiaries of universal basic income and pensions and the application also to charges relating to sewerage and purification services. The ARERA measure regulating the matter was issued at the beginning of 2020. Moreover, from 1 January 2021 the automatic recognition of the social water bonus is envisaged for all persons with ISEE within the established limits.

Finally, the 2020 Budget Law (Italian Law 160/2019 in Ordinary Supplement no. 45/L to Official Gazette of 30 December 2019) contains some significant measures for the IWS, in paragraphs 291, 292, 293 and 295 of article 1. In fact, a notice (to be sent by registered letter with return receipt) of not less than 40 days is envisaged for communications contesting any non-payment and communicating the suspension of service in the event of failure to pay; a penalty is also introduced equal to 10% of the amount contested and not due and in any case not less than € 100 in the case of debit invoices for which the relevant authority has ascertained or duly documented the illegality of the operator's conduct. Finally, paragraph 5.1 of Italian Law no. 207/2017 was repealed, which envisaged the non-applicability of the two-year limitation period in the event of failure or erroneous collection of consumption data resulting from ascertained liability of the user. Assessments are currently under way regarding the impact of the introduction of these measures, as well as the interaction with the regulatory framework currently in force for the water sector. Developments are also expected related to the conversion of Italian Legislative Decree 162/2019 "Urgent provisions regarding the extension of legislative deadlines, the organisation of public administrations and technological innovation" (so-called 1000 Postponements), during the debate of which several amendments were presented on the subject.

On the other hand, with regard to the legislation in progress, the most important measure is the bill "Provisions on public and participatory management of the integrated water cycle" (Daga bill – AC 52), discussed together with the bill "Principles for the protection, governance and public management of water" (Braga bill – AC 773). The text is currently being examined by the parliament's Environment Committee. A technical report has been expected by the

government since March 2019. During the examination by the committee, hearings were held with the various stakeholders, including several companies in the sector (including Acea and Utilitalia, the federation that brings together companies operating in the public water, environment, electricity and gas services) as well as ARERA, which had an opportunity to express their views on the matter. In particular, at the hearing of 9 January 2019, ARERA presented a brief (1/2019/I/IDR of 8 January 2019) in which it shared, first of all, the explicit recognition of the right to quality drinking water. With regard to the financing of investments, it had a positive opinion of the use of public resources for the financing of strategic infrastructure for the territory, in cases where the tariff is objectively inadequate to guarantee coverage. With regard to the measure, it noted that it was important to prepare an effective strategy for widespread improvement of the measure that takes into account the other needs in the sector. ARERA also pointed out the need for a further strengthening of the protections for the end user and placed particular emphasis on the following issues: users in a documented state of economic distress, reform of fees to end users, introduction of measures to strengthen accountability. In terms of governance, the Authority considered it a top priority that the regulatory functions be neutral and independent with respect to the conflicting interests of the sector, to gradually give extremely different geographical realities a common denominator.

ARERA WATER SERVICES ACTIVITIES

During the period covered by this report, ARERA continued in its activity of defining the regulatory framework by issuing several significant measures. In particular, the definition of the tariff methodology for the third regulatory period 2020-2023 (MTI-3) was initiated and completed, and substantial additions were introduced to the regulation of contractual quality.

Particularly significant was also the recent issue – in July 2019, at the end of a long consultation process – of the new rules for the management of delinquency in the integrated water service in Italy with the publication of the related integrated text (REMSI). Finally, it is worth mentioning the definition of the Strategic Framework for the three-year period 2019-2021, a document in which the Authority outlines the strategic objectives and the main lines of intervention for the period in light of the evolution of the national and European sector context.

With regard to the promotion of infrastructure in the water sector, the first list of works for the aqueduct section of the National Plan for water sector projects has been drafted, for which the conditions, terms and methods for the disbursement of resources have been defined by a specific measure and financing has finally been initiated.

With regard to the guarantee fund for waterworks, the methods for its funding and management are currently being consulted.

Finally, it is worth mentioning the opening of a fact-finding survey on how sewerage sludge is managed and exploited.

The most important measures issued by ARERA during 2019 are briefly analysed below.

TARIFF METHOD – THIRD REGULATORY PERIOD

Resolution 580/2019/R/IDR “Approval of the water tariff method for the third regulatory period MTI-3”.

The measure, which is highly articulated due to the extent and complexity of the issues dealt with, closes the procedure initiated by Resolution no. 34/2019/R/IDR, which also envisaged the meeting with the procedure relating to the monitoring of the implementation of planned investments, opened by Resolution no. 518/2018/R/IDR.

During the last quarter of 2019 two complex consultation documents (DCO 402/2019/R/IDR and 480/2019/R/IDR) were issued and dealt with, in which ARERA explained its orientations and involved stakeholders.

With respect to the previous MTI-2, the new method outlined at the end of the year essentially confirms the configuration, general mechanism and methods for approving tariffs for the four-year period 2020-2023, but with the introduction of several significant changes. First of all, the operator's positioning criterion in the matrix of regulatory schemes was changed, no longer depending on the interaction between average operating cost and the ratio of investment needs to RAB, but on the operator's Guaranteed Revenue Constraint (GRC) and investment needs to RAB. The new rule involves a reduction in the maximum annual tariff increase in all the schemes of the matrix with variations from a minimum of 5.2% (scheme 1) to a maximum of 8.5% (scheme VI), while in the four-year period 2016-2019 the range of variation was from 6% to 9%. Acea Ato 2 and Acea Ato 5 are in regulatory scheme V, with a maximum annual limit of 6.2%.

The application of the new parameters introduced for the calculation of financial and fiscal charges leads to a reduction of the WACC from 5.31% in MTI-2 to 5.24% in MTI-3, while the introduction of a differentiation of financial charges on “ordinary” assets under construction (i.e. not related to strategic projects) leads to the application of a lower and decreasing WACC during the 4 years of tariff recognition. Strategic Works, i.e. infrastructural projects whose completion – considered as a priority by the government – structurally requires multi-year deadlines due to their technical complexity, are included in the Strategic Works Plan (SWP), which is an integral part of the Works Programme. With regard to assets, starting in 2020 the new method revises the classification of useful life (confirming the use of financial depreciation) in order to bring infrastructure back to the relevant IWS activity and identify a correspondence between the category of assets and the quality objectives.

Another important element is the introduction of an operating cost efficiency mechanism through the use of an econometric model for estimating the total cost boundary, determined according to the output level and the prices of inputs. The mechanism rewards those operators that achieve lower operating costs per capita than those estimated by the model, while in the opposite case the deducted portion of the margin between recognised endogenous operating costs and efficient operating cost will feed into an allocative tool additional to the UI2 equalisation tariff component, designed to support the bonus for technical and commercial quality.

Also in terms of operating costs, MTI-3 reduces the parametric recognition of the cost per delinquency for operators in Central Italy (from 3.8% to 3%) and in Northern Italy (from 2.1% to 2%), recognises under certain conditions (first of all achievement of the M5 technical quality objective – sludge disposal in landfills) the extra cost for the disposal of sewerage sludge (in view of the difficulties encountered by operators since 2018) and envisages forms of promoting environmental sustainability through the promotion of measures like the containment of electricity consumption, the reduction of the use of plastic, the recovery of energy and material, the reuse of purified water for agricultural and industrial purposes. Finally, the new method offers tools and control phases aimed at verifying the actual implementation of the investments planned in the previous four-year period 2016-2019 in order to ensure the correct allocation in the regulatory schemes and the consistency between the priority objectives set for subsequent years and the economic-financial sustainability of the operation. In the case of underinvestment and failure to achieve technical or contractual quality objectives, additional forms of penalties are established.

The deadline for the submission of the tariff application by the AGB is 30 April 2020. The approval by ARERA is expected within the next 90 days, unless other information is necessary. The infra-period review is expected by the deadline of 30 April 2022.

We are waiting for the measure, soon to be issued, with which the Authority will define the procedures for the presentation of data, as well as the minimum contents and the procedures for drafting the acts that constitute the tariff proposal.

REGULATION OF CONTRACTUAL QUALITY

Resolution 547/2019/R/IDR “Updating of the current regulations on the regulation of the contractual quality of the integrated water service and provisions for the strengthening of safeguards for the benefit of end users in cases of invoicing of amounts relating to consumption dating back more than two years”.

Following the monitoring launched by ARERA with resolution 571/2018/R/IDR, aimed at verifying the correct application of the contractual quality regulation and the updating of the current regulations, in October 2019 a consultation on the subject was opened with DCO 422/2019/R/IDR, aimed at illustrating the main lines of action set out by the ARERA and collecting comments from interested parties.

The final measure includes the regulation of the contractual quality of the integrated water service, as defined by Resolution no. 655/2015/R/IDR (RQSII), in order to strengthen the protection of users' interests and guarantee adequate levels of performance by operators. Moreover, in light of the provisions introduced by Italian Law no. 205/17, it introduces certain measures to strengthen protection for end users in cases of invoicing amounts for consumption dating back more than two years, with particular reference to the disclosure obligations placed on water service operators.

In summary, with the new provisions relating to contractual quality, an incentive mechanism was introduced similar to the one envisaged for the regulation of technical quality, based on the construction of 2 macro-indicators obtained from the 42 simple indicators already envisaged by Resolution 655/2015/R/IDR:

- MC1 “Initiation and termination of the contractual relationship” composed of simple indicators relating to estimates, the execution of connections and works and the activation and deactivation of services;
- MC2 “Management of the contractual relationship and accessibility to the service” composed of simple indicators relating to appointments, invoicing, meter and pressure level checks, responses to written requests and the management of contact points with users.

The macro-indicators are calculated as the average of the relevant simple indicators, weighted according to the number of services provided. Based on the initial performance levels related to each macro-indicator, three classes of annual targets are identified: Class A (maintaining the starting level), Class B (with improvement of 1%), Class C (with improvement of 3%). Rewards and penalties with respect to the objective set based on the starting level are determined through a multi-stage assessment broken down into base level and level of excellence.

Prizes and penalties will be quantified from 2022 onwards based on performance in each of the two previous years (just for the first year of the performance evaluation, 2020, the starting level is defined on the basis of the simple indicators recorded in 2018).

A further important addition to the previous regulatory framework in terms of contractual quality is the provision to extend the protections also to non-contractual entities that require the performance of services preparatory to the conclusion of the supply contract. If a contractual relationship is established for the supply of the water service, the operator is required to provide automatic compensation under Title X of the RQSII in the first subsequent invoice. A minimum billing frequency of not less than one month is then introduced, and details are provided on the standards for ser-

vices whose execution time depends on the work of third parties (reading meters in joint consultation with chambers of commerce, in accordance with Italian Ministerial Decree 93/2017, and complex works for which works to be carried out by the user are necessary or which deeds like concessions, authorisations or easements must be requested for).

With regard to the methods of data registration and disclosure, the obligation to disclose data to the Authority was also extended to operators serving up to 50,000 inhabitants (who in any case already had to keep records of services). The annual deadline for the disclosure of contractual quality data to the Authority was also moved up to 15 March.

The above provisions apply from 1 January 2020, with the specification that in any case by 1 July 2020 operators will be required to adjust the methods of recording information and data concerning services subject to specific and general levels of contractual quality. In any case, it is possible to submit a reasoned request for a waiver in cases of ongoing management aggregation processes and for operators in territories affected by earthquakes.

Attachment B of Resolution no. 547/2019 contains provisions on the subject of disclosure obligations in the event of a two-year limitation period as per the amendments introduced by the Italian 2018 Budget Law no. 205/2017. The operator's entitlement to the fee owed by domestic users, micro-enterprises and professionals for the supply of water is reduced from five to two years for invoices due after 1 January 2020 and only if the failure or erroneous collection of consumption data does not result from the user's proven responsibility. ARERA defines the disclosure obligations towards the user, specifying the information to be provided in the bill for both the operator's responsibility and the end user's responsibility.

ARREARS

Resolution 311/2019/R/IDR “Regulation of arrears in the Integrated Water Service”.

With the enactment of the final measure, including the attached REMSI (Regulation of arrears in the integrated water service), the directives for the management of arrears in the integrated water service in the national territory were adopted, thus concluding – after broad consultation (DCO 603/2017/R/IDR, 80/2018/R/IDR and 158/2019/R/IDR) – the process started in November 2016 with the opening of the procedure (Resolution 638/2016/R/IDR). Specifically, Resolution no. 311/2019/R/IDR, which is expected to be applied from 1 January 2020:

- defines the end users that cannot be disconnected, identified as the beneficiaries of the social water bonus and the users for “Public use that cannot be disconnected” referred to in Resolution 665/2017/R/IDR (TICSI);
- regulates the formal notice procedure, requiring the operator to send an amicable payment reminder prior to the formal notice; defining the timing of the process, including the final payment deadline;
- regulates the procedures for restriction, suspension and deactivation and supply, defining their conditions, methods and timing. In particular, for resident domestic users, a phase of restriction of the supply with guarantee of the minimum vital quantity (50 litres/inhabitant/day) is foreseen before suspension. For this type of user, deactivation cannot be carried out except in the event of tampering with seals/flow limiters and failure to comply with the obligations for the recovery of past arrears in the previous 24 months;
- lays down specific rules for condominium accounts, providing that no restriction/suspension/deactivation may be made against partial payments, provided that they are made in a single instalment within the deadline specified in the formal notice and equal

to at least half of the amount due. If the condominium does not pay the balance within 6 months of the partial payment, the operator may restrict, suspend or deactivate the supply;

- sets out the situations in which the operator is required to ensure the payment in instalments of the amount in arrears and the arrangements for such payment;
- finally, it provides for automatic compensation in the event of non-compliance with the requirements.

NATIONAL PLAN OF PROJECTS IN THE WATER SECTOR

Aqueducts Section

Resolution 51/2019/R/IDR “Initiation of the proceeding concerning the necessary and urgent interventions for the water sector for the definition of the “Aqueducts” section of the National Plan, referred to in article 1, paragraph 516 of Italian Law 205/2017”.

The measure supplements and renews the procedure set out in Resolution no. 25/2018/R/IDR on the necessary and urgent measures for the water sector for the purposes of defining the “aqueducts” section of the National Plan (referred to in article 1, paragraph 516 of Italian Law no. 205/17), providing that it take due account of the recent provisions introduced by article 1, paragraph 153-155 of Italian Law no. 145/18 (Italian Budget Law 2019).

In particular, ARERA considers it necessary to:

- without prejudice to the investigative activities already carried out, define the most suitable methods for identifying synergies between the interventions to be included in the various parts of the National Plan, in particular continuing the coordination between the administrations involved to adopt consistent selection criteria based on the guarantees regarding the effectiveness and speed of execution of the interventions to be financed (paragraph 153, art. 1 of Italian Law 145/18);
- conduct further assessments in light of the renewed and strengthened focus that laws have placed on containing water loss (paragraph 153, art. 1 of Italian Law 145/18);
- supplement the activities aimed at defining the “aqueducts” section of the National Plan with sensitivity analyses regarding tariffs in light of the completion of operations for the planned financing instruments;
- taking into account the characteristics of the potential beneficiaries of public resources, assess the most suitable measures to ensure the management capacity of the operator to whom the management of the works financed by the National Plan will be entrusted, as a prerequisite for an effective use of the resources granted.

Resolution 252/2019/I/IDR “First list of the necessary and urgent interventions for the water sector for the definition of the ‘aqueducts’ section of the National Plan, referred to in article 1, paragraph 516 of Italian Law 205/2017”.

For the purposes of defining a first excerpt of the “aqueducts” section of the National Plan referred to in article 1, paragraph 516 of Italian Law 205/2017, as subsequently supplemented by the provisions of Italian Law 145/2018, ARERA provided an initial cluster of projects that updated and integrated the list presented in Reports 268/2018/I/IDR and 538/2018/I/IDR. These projects were identified by the competent territorial entities as necessary and urgent for the achievement of the priority objectives of achieving adequate levels of technical quality, recovery and expansion of the water tightness and transport of water resources, dissemination of tools aimed at saving water in agricultural, industrial and civil uses. The list contains 26 projects for a total of € 80 million over the two-year period 2019-2020. Projects not selected for this first

cluster, other projects that will emerge as priorities, as well as the continuation of the activities of the selected projects may be evaluated both for the inclusion in subsequent clusters of the “aqueducts” section of the National Plan and for the use of the Water Works Guarantee Fund referred to in article 58 of Italian Law no. 221 of 28 December 2015.

As far as the Acea Group is concerned, the only project in the list (and already included in previous versions) is that of Acea Ato 5 for the replacement of the adductive water pipeline – Supino and Morolo for a total in the two-year period of 4,400,000.

Resolution 425/2019/R/IDR “Regulation of the procedures for the disbursement of resources for the completion of the projects contained in Annex 1 to the Decree of the President of the Council of Ministers of 1 August 2019, concerning the ‘adoption of the first excerpt of the national plan of projects in the water sector – aqueducts section’, adopted pursuant to article 1, paragraph 516 of Italian Law 205/2017”.

With the measure ARERA regulates the conditions, terms and methods of disbursement of the resources allocated for the completion of the projects referred to in the first excerpt of the National Plan for projects in the water sector – aqueducts section.

The resolution provides for the establishment at CSEA of the Account for the financing of the projects of the National Plan, aqueducts section, with the aim of supporting the planning and completion of the projects. The subsequent CSEA Circular 37/2019/IDR provides the reference body and the implementing entity with the operating instructions and the related forms for the disbursement of the advance payment for the projects.

Resolution 512/2019/R/IDR “Start of the disbursement of resources for the completion of the projects referred to in Annex 1 of Italian Prime Ministerial Decree dated 1 August 2019 concerning “Adoption of the first excerpt of the National Plan of projects in the water sector – aqueducts section”.

The resolution authorises CSEA to pay the first instalment of financing (advance payment of 40% of the total) for the construction of the works listed in the measure itself (23 out of the 26 works included in the first part of the plan). For the remaining works in the Plan excerpt the authorisation for the payment of the first instalment is postponed to the verification of the complete fulfilment of the obligations envisaged. The total amount to be disbursed as the first tranche is € 14.5 million for 18 operators, including Acea Ato 5 for an amount of € 880,000.

Reservoir Section

Opinion 160/2019/I/IDR “Opinion to the Minister of Infrastructure and Transport on the proposed decree of the President of the Council of Ministers for the adoption of the first section of the National Plan of interventions in the water sector, relating to the ‘reservoirs’ section, referred to in article 1, paragraph 516, of Italian Law 205/2017”.

With this measure, pursuant to art. 1, paragraph 516 of Italian Law 205/17, ARERA offered a favourable opinion with comments on the proposal for a decree sent by the MIT, pointing out, however, that the proposal does not refer to the provision of Italian Law 205/17 for which the AGBs (and the other parties responsible for carrying out the measures), within 60 days of the date of entry into force of the decree itself, adjust their planning and programming in line with the measures envisaged in the National Plan, as well as the fact that the agreements (referred to in the proposed decree) do not include – for critical cases in the planning and management of the integrated water service – specific conditions aimed at balancing the need to quickly start financing the projects of the National Plan with that of ensuring their effective and sustainable implementation.

Water works guarantee fund

Resolution 353/2019/R/IDR “Initiation of proceedings to define the procedures for the supply and management of the Guarantee Fund for water works, referred to in article 58 of Italian Law 221/2015, consistent with the criteria set out in the Italian Prime Ministerial Decree of 30 May 2019”.

ARERA started to define the procedures for the supply and management of the Guarantee Fund for water works, referred to in article 58 of Italian Law 221/15 in line with the criteria set out in the Italian Prime Ministerial Decree of 30 May 2019, envisaging in a first phase:

- the identification of the needs related to the new project financing operations;
- the quantification of the tariff equalisation component, to be established under MTI-3, intended to feed into the fund;
- the definition of the general elements necessary to govern the way the fund is managed;
- the setting up of the Risk Assessment Committee at the CSEA, which is responsible for giving its opinion on the Fund's operating procedures and on the proposals for projects to be covered by the guarantee.

At a later stage, the procedures and terms for issuing guarantees, assessing individual applications and monitoring and verifying the development of the projects eligible for guarantees will have to be defined.

DCO 368/2019/R/IDR “Definition of the arrangements for the supply and management of the Guarantee Fund for water works. General framework and first lines of action”.

In the ARERA measure, in addition to illustrating the recognition of the needs connected to the new financing operations of the projects included in the categories listed in the Prime Ministerial Decree, it proposes uses and sources of financing of the Fund, defining the amount of the guarantees and the quantification of the tariff equalisation component aimed at financing it, foreseeing its establishment within the MTI-3. At first, the guarantees will be granted to cover needs requiring an effective increase in spending capacity compared to what had been planned. The amount of the guarantees given (of separate amounts depending on whether or not the beneficiary is subject to the regulation of ARERA) will depend on the rate of completion of the planned measures, the degree of capitalisation of the subject, the cost of recourse to debt, the operator's local institutional structure and the strategic importance of the operation to be financed. ARERA foresees the calculation of a cost for the guarantee that the requesting operator will pay to CSEA and that, for regulated operators, will be included in the tariff. As already mentioned above, in order to pay into the Fund and cover its operating costs, Resolution 580/19 (MTI-3) established an equalisation component equal to 0.4 cents/€ per cubic metre. The end of the measure includes a number of procedural elements relating to the subjective requirements of applicants for eligibility for the Fund's guarantees, the financial transactions accepted as collateral, the cases of termination of the credit line for which payment of the recognised take-over value must be provided and the related settlement procedures and the procedures for applying for the guarantee. Finally, the measure includes a schematic representation of the Fund's operation and the organisational relations between ARERA and CSEA.

2019-2021 strategic framework

Resolution 242/2019/A “ARERA 2019-2021 strategic framework”.

The measure adopts the Authority's Strategic Framework for the three-year period 2019-2021, taking into account the results of the consultation, including the information that emerged from the periodic hearings of 8-9 May 2019.

The document's inspiring principles include: a more central role for the consumer, the use of innovation in technology and processes,

a particular attention to uniform development in the different areas of the country, to which principles of asymmetric regulation will be applied in order to make the level of public services more uniform. With specific reference to the integrated water service, the main changes in the Strategic Objectives (SOs) are the following:

- SO 2 (“Consumer Awareness and Transparency for a better evaluation of the service”): periodic publication of performance indicators for each operator accompanied by some useful information to describe the management of reference, with the aim of monitoring and improving the available information and users' willingness to pay, also with benefits in terms of containment of arrears;
- SO 4 (“Supporting innovation through experimentation and research”): extension to the IWS of the objective of developing innovative projects to strengthen metering, assessing its economic and environmental impacts;
- SO 7 (“Expansion and updating of uniform rules on the national territory for the management of relations between operators and users in the water sector”): in-depth study of the subject of plant transformation aimed at installing consumption metering devices for each individual building unit;
- SO 10 (“Effective planning and implementation of investments for a quality water service”): in the field of technical quality, rather than envisaging the extension of the initial set of indicators ARERA intends to “complete – also based on the results achieved in the first application phase – the set of indicators introduced”;
- SO 11 (“Cost-efficient cost recognition in the integrated water service”): introduction of the reference to ARERA's action to promote, among other things, the implementation of projects aiming at the recovery of energy and matter from sewerage sludge.

Apartment buildings – Study of meter reading and billing

Resolution 295/2019/E/IDR “Launch of a fact-finding survey of the performance of integrated water service operators with respect to meter reading and billing for individual units in apartment buildings”.

Expected to be completed by 31 March 2020, pending the definition of a framework of common rules aimed at aggregate users the procedure is intended to pursue “the aim of ensuring the effective application of the provisions introduced by the regulation for all end consumers (including those underlying aggregate users)”, evaluating the activities already carried out by operators and then “reconsider the general scope of services and related regulatory requirements”. From the first information acquired by ARERA (also through reports received), in cases of aggregate accounts having divisional meters there are different situations in the territory:

- in some areas the internal metering of apartment buildings is carried out by accounting companies which, delegated by the same apartment complexes, perform the reading of the divisional meters, the distribution of the bill, the collection, the reminder of users in arrears and the payment of the bill to the operator;
- in other areas, the service of reading, distribution, billing and related collection for divisional meters inside the apartments of each building is carried out directly by the operator or administrator of the complex;
- finally, in some cases, innovative methods of communication have been adopted, including using applications on mobile devices capable of informing and raising awareness of consumption among the individual owners of the units in the complex.

ARERA intends to carry out its own in-depth analysis starting from the information communicated by the operators with specific regard to “other water activities” (referring to the “construction and/or maintenance of the systems downstream of the meters, the reading of divisional meters inside the apartment complexes and billing”).

Treatment sludge

Resolution 20/2019/R/IDR “Launch of a fact-finding study of the methods for managing and exploiting treatment sludge”.

A fact-finding study was launched into the methods for recovering and disposing of sewage sludge, providing for specific in-depth actions aimed at encouraging the adoption of further measures to accompany the transition to a circular economy in the wastewater treatment sector. The purpose of the survey is to collect data and information on the technologies currently available for the containment/use of the total quantity of sludge and on its transport, recovery and disposal costs. In addition, further details are planned regarding the third parties involved in the management of the sludge until its final destination, as well as any extra-regional or international movements. The study will end on 31 December 2019. Resolution no. 580/19 (MTI-3) introduced a new component aimed at recognising the higher cost of sludge disposal, with an exemption equal to 2% of the allowed cost.

Memorandum 179/2019/I/com “Hearing of the Regulation Authority for Energy Networks and the Environment on the draft law “Delegation of powers to the government for the transposition of European directives and the implementation of other acts of the European Union – European delegation law 2018 (AS 944)”.

During the hearing held on 7 May 2019 before the 14th Commission (EU Policies) that examined the Draft European Delegation Law 2018 (for the delegation to the government of the transposition of 24 European directives and other EU acts), ARERA reiterated its willingness to be involved in matters that fall within its area of responsibility. In particular, ARERA wishes to be informed both of the planned reform of the system of criteria for the acceptance of waste in landfills and the new organic rules on the use of sludge, which will amend the provisions of Italian Legislative Decree no. 99 of 27 January 1992 (use of purification sludge in agriculture).

For both regulations, this is the implementation of Directive 2018/850, which is part of the so-called Package of measures on the circular economy. In this regard, ARERA agrees with the indications provided by the draft law, specifying:

- that it recently launched a fact-finding exercise on the subject with Resolution 20/2019/R/IDR, with a view to promoting the dissemination of innovative technologies and the transition to a circular economy in the wastewater treatment sector;
- with the introduction of Technical Quality regulations (Resolution 917/2017/R/IDR), to have introduced a specific indicator (M5 - Disposal of sludge in landfills) aimed at minimising the environmental impact deriving from the conveyance of wastewater.

Based on these elements, ARERA suggests considering its involvement, both in the review of the system of criteria for the acceptance of waste at landfills and in the review of the rules set out in Italian Legislative Decree 99/1992.

Social water bonus

Resolution no. 165/2019/R/COM “Amendments to the integrated text of the implementing rules for compensation schemes for the costs incurred by disadvantaged domestic customers for the supply of electricity and natural gas (TIBEG) and the integrated text of the implementing rules for the social water bonus for the supply of water to economically disadvantaged domestic customers (TIBSI) in accordance with article 5, paragraph 7 of Italian Decree Law no. 4 of 28 January 2019, converted with amendments into Italian Law no. 26 of 28 March 2019”.

In accordance with article 5, paragraph 7 of Italian Decree Law 4/19 containing urgent provisions on universal basic income and pensions,

ARERA has supplemented/amended the regulations on bonuses for services regulated in compliance with the new regulations. In particular, in the TIBSI the references to “Retail Card” and “Rel Card” have been removed, while it is established that beneficiaries of universal basic income and pensions can apply for bonuses from 20 May 2019.

As a result, appropriate changes were made to the application/renewal forms (Determination 1/2019 – DACU). Moreover, following application problems that emerged during the initial implementation phase, the detailed procedures for the validation of social water bonus requests and the procedures for the recognition of the one-off quota were further developed (Determination 4/2019 – DACU).

Report 280/2019/I/COM “Report to parliament and government on social bonuses for electricity, gas and water”.

With this document, ARERA submitted to parliament and the government some considerations regarding social bonuses for the supply of electricity, natural gas and water, proposing a procedure to guarantee their automatic use to all potential beneficiaries.

In fact, the data show that despite the efforts made to disseminate knowledge of these programmes, their use is not particularly widespread among those entitled to them. ARERA also called for the extension of the social water bonus to the recipients of universal basic income and its reparametrisation, so as to include also the expenses related to sewerage and purification services.

Resolution 499/2019/R/COM “Update of the ISEE threshold value for qualifying for social bonuses from 1 January 2020, pursuant to the decree of the Italian Minister of Economic Development of 29 December 2016”.

In accordance with the provisions issued by the decree of the Minister of Economic Development of 29 December 2016, the measure updates the value of the ISEE threshold for qualifying for social bonuses from € 8,107.50 to € 8,265. The update will be effective from 1 January 2020. Subsequent updates will take place every three years. ARERA estimates that with this adjustment the social water, electricity and gas bonus will be extended to 200,000 new families.

Consumer protection

Resolution 142/2019/E/IDR “Implementation in the water sector of the protection system for complaints and disputes of customers and end users of regulated sectors”.

With this measure, ARERA implemented a gradual transition to the fully operational system by means of further updates to the transitional rules (Resolution 55/2018), establishing:

- for operators serving at least 300,000 residents, the obligation to participate from 1 July 2019 in the procedures voluntarily filed by end users before the Conciliation Service;
- for end users served by the operators referred to in the previous point the exclusivity of the Conciliation Service, as a voluntary second-level instrument of the protection system. Only disputes regarding the social water bonus can be escalated to the Branch, without prejudice to any compensation.

Annex A to the resolution lists the 44 operators required to participate in the Conciliation Service (for the Acea Group: Acea Ato 2, Acea Ato 5, AdF, Publiacqua, Acque, Gori and Umbra Acque). The list may be progressively amended in the event of changes in the population served or if there are other operators voluntarily entering into a participatory commitment of at least two years' duration. Operators that are obliged to (or that have made a voluntary commitment) must clearly specify in a manner that is easily understood on their website, in new contracts and in responses that do not resolve the complaints of an issue raised by the user at least:

- a. how to initiate the Authority's Conciliation Service;
- b. the methods for engaging any other out-of-court dispute resolution bodies they agree to participate in and whose procedure is free of charge.

ARERA confirms that conciliation in the IWS is not yet a procedural condition for access to ordinary justice by postponing the deadline to an undetermined date. The ability to choose either the Conciliation Service or another conciliation procedure for the same dispute is confirmed.

Inspections

Resolution 253/2019/S/IDR “Imposition of administrative fines for violations of the integrated water service tariff regulation”.

With the measure in question, ARERA imposed a fine of € 955,000 on Acea Ato 5 – Frosinone.

The sanctioning procedure was initiated by DSAI 42/2018 following an inspection in November 2017 with reference to possible violations of the provisions relating to the definition of the IWS tariffs. The main violation by the company refers to a misinterpretation of the regulations on tax deductibility, which led the company not to include among the items adjusting production costs (in particular, among the provisions in excess of the application of tax regulations, which are not deductible for tax purposes), the allocation to the “provision for risks and charges” recorded in the financial statements in 2011, thus overestimating the improvable operating costs recognisable in tariffs for the years 2012-2017.

On 16 October 2019, the Company paid the entire penalty ascribed to it and in any case corrected the error in the 2018-2019 tariff revision process, showing that it incurred efficient operating costs that were even higher than those recognised in the tariff prior to the application of the limitations. The Company filed an appeal against the measure in October 2019.

Tariff framework and document updates for Acea Ato 2 Lazio Central-Rome and Acea Ato 5 – Southern Lazio – Frosinone Acea Ato 2

ARERA approved the tariff proposal valid for the year 2019 with resolution 572/2018/R/IDR.

On 9 January 2019, after having submitted to the OTS on 13 November 2018 a request to update the tariff structure as envisaged by ARERA Resolution 665/2017, Acea Ato 2 asked ARERA to instruct the Ato 2 Conference of Mayors to comply with the adoption of the new tariff structure not approved by the Conference of Mayors (of 15 October and 13 December 2018).

Pending the adoption of the new tariff structure, with effect from 1 January 2019 Acea Ato 2 is applying the tariff increase of 5.96%, as approved by ARERA with resolution 674/2016, confirmed by resolution 572/2018.

Moreover, note the approval of the Implementation Regulations for the 2019 supplementary water bonus of Ato 2 Central Lazio – Rome by resolution no. 2-19 of the Conference of Mayors of 15 April 2019”. Those entitled are direct users (holders of a resident household account) and indirect users (household users in an apartment complex) who must meet certain requirements.

Under their own responsibility and based on specific certification by the relevant offices, the Municipal Administrations have the power to authorise the supply for individual users in situations of proven particular economic/social hardship, increasing the ISEE threshold for admission for this specific case. With the new regulation, the amount of the “local” bonus, consisting of the payment of a one-off annual contribution recognised in the bill (in the case of indirect users in the apartment building utility bill), is calculated as the expenditure corresponding to the fixed and variable fees for water, sewerage and purification for a consumption of up to 40 cubic meters per year for each member of the household, for direct and indirect users with ISEE up to € 8,107.50 and 20 cubic metres per year for each member of the household for other eligible users. The bonus is valid for one year and is paid in a single pay-

ment, normally within 6 months from the date of submission of the application (which must be submitted by 31 December 2019).

With reference to the other significant elements that emerged at the OTA level, it should also be noted that at the Conference of Mayors held on 24 July 2019 the new Ato 2 Central Lazio – Rome user regulations were approved. In this document, ARERA provisions considered particularly relevant to the regulation of the IWS were incorporated, including those concerning technical quality, contractual quality, social water bonus and regulation of the measure. At the same Conference of Mayors, in agreement with the operator Acea Ato 2 the OTS was asked to update both the User Regulations and the Integrated Water Service Charter in order to bring the texts into line with the provisions contained in the very recent ARERA resolution no. 311/2019 on arrears.

Finally, with resolution no. 4/2019 approved by the Conference of Mayors at its meeting of 11 November 2019, the new tariff structure defined in application of ARERA resolution no. 665/2017/R/idr (TICSI) was approved. The application will start in March 2020.

Acea Ato 5

In implementation of the regulatory framework in force on 1 August 2018, the Conference of Mayors of Ato 5, by resolution no. 7, approved the approval of the tariff multiplier for the 2018 and 2019 years in the maximum amount provisionally envisaged by the tariff method of 8%, it being understood that with regard to the maximum theta values that determine tariff variations exceeding the limit provided for by the MTI-2 an investigation will be carried out by the ARERA.

With regard to sewerage and purification, it should be noted that a limited part of the territory is managed by the Industrial Development Consortium of Frosinone (ASI). Resolution no. 664/2015 imposes on the AATO the obligation to determine the fees for the performance of public utility services, including those relating to sewerage and purification. In particular, Annex A of the aforementioned Resolution defines the shared use (Common Carriage) of an infrastructure managed by a non-regulated entity other than the wholesaler to provide water and/or sewerage and purification services also to other types of non-member users. Where the wholesale supplier provides the service to the IWS Operator in the context of a Common Carriage activity, for the purpose of ensuring the supply the cost charged to the IWS Manager must be calculated on the basis of the marginal cost of the service provided, as set out in article 26.3 of the Resolution. For these reasons, the OTS has proposed a way of calculating the total costs for the provision of services by the ASI, attributable to each plant, as the sum of the variable direct costs, the fixed direct costs and the indirect costs of the plant itself. This method of calculation was approved during the meeting of 26 March 2018 by the Conference of Mayors with resolution no. 3/2018. The aforesaid costs will be accounted for by the Operator for the years 2018 and 2019 for an amount of € 1,466,000 and € 1,455,000 respectively, and were included in resolution no. 7 of the Conference of Mayors of 1 August 2018. By resolution no. 8 of 1 August 2018, the Conference of Mayors approved, pursuant to art. 3, paragraph 1 of ARERA Resolution no. 665/2017/r/idr of 28 September 2017, the new tariff structure (TICSI).

Update on appeals against the ARERA tariff regulation

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

In the public hearing held on 29 September 2015, the suspension

of the pending judgement and the postponement of the decision to a later date following the outcome of the technical office consultancy arranged for the appeals proposed in 2014 by Codacons and the associations Acqua Bene Comune and Federconsumatori, considering the existence of a relationship of dependence-consequentiality between the decision of the appeal by ARERA and the decision on appeals promoted by the Consumer Associations, focusing in particular on the tariff component relating to the financial charges of the IWS manager, i.e. on the formulas and parameters implemented in art. 18 of Annex A of Resolution ARERA no. 585/2012 of 28 December 2012 (MTT), considered as a reintroduction of the criterion of “adequacy of invested capital” that had been eliminated by the outcome of the 2011 referendum.

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

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

Following the hearing, held as planned on the scheduled date, the Council postponed the discussion of the judgement, inviting the parties to file some briefs (to be presented by 19 December 2018) to make sure that there were no delays in resuming the appeal proceedings. At the hearing in question, however, the judge had not set the date of referral, which was instead established only in the early days of 2019. At the hearing held on 13 June 2019, part of the grounds for appeal were waived and the Council of State ordered the acquisition of the expert's report submitted by the aforementioned parties (Codacons, Acqua Bene Comune, Federconsumatori) in order to submit it to the parties for oral arguments. The next hearing was set for 2 April 2020.

As of the date of this report, in addition to the appeal to the Council of State mentioned above, the other appeals filed by Acea Ato 2 before the Lombardy TAR against Resolution no. 643/2013/R/IDR (MTI) and Resolution no. 664/2015/R/IDR (MTI-2) are still pending. With regard to Resolution 643/2013, it should be noted that on 8 May 2014 additional grounds were presented for the cancellation of ARERA decisions no. 2 and no. 3. On 9 December 2014 additional grounds were presented for the cancellation of Resolution 463/2014/R/IDR. Pending the scheduling of the hearing, in April 2019 the notice of the hearing was received (the administrative process was cancelled due to the inactivity of the party). Following this communication, on 20 June 2019 Acea Ato 2 presented the request for the scheduling of the hearing together with the new power of attorney signed by the Chairman.

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

It should be noted that Acea Ato 2 and Acea Ato 5 (as well as other Group companies) have appealed to the Regional Administrative Court against Resolution no. 311/2019/R/ldr of 16 July 2019 concerning the “Regulation of arrears in the integrated water service”. A hearing on the merits is still pending.

With regard to Resolutions no. 547/2019 (RQSII Update) and no. 580/2019 (new MTI-3 tariff method), it should be noted that in February 2020 Acea Ato 2 and Acea Ato 5 (in addition to other Group companies) filed an appeal against these resolutions with the Lombardy Regional Administrative Court and we are waiting for the hearings on the merits to be scheduled.

The regulatory activity of the Lazio Region in terms of territorial planning and governance of the Integrated Water Service

With regard to the redefinition of the ATOBI (River Basin Optimal Territorial Areas) envisaged by Lazio Regional Decree 218/18, the Regional Councillor for Public Works, Land Protection and Mobility with note no. 048127 of 2 August 2018 had proposed the establishment of an Institutional Consultation Committee, composed among others of two parties identified by the Conference of Mayors and with the task of analysing the following aspects, to be ensured with the new structure: 1) the regulatory system; 2) environmental protection; 3) consumer protection; 4) the industrial model; and 5) interregional comparison.

At its meeting of 13 December 2018, by way of derogation from the aforementioned note the Conference of Mayors of the Ato 2 had asked the Councillor for Public Works and Territorial Protection, Mobility to accept a number of representatives of the Ato 2 equal to five or seven. With note prot. no. 29855 of 15 January 2019, communicated to the Mayors of Ato 2 with note prot. no. 192 of 17 January 2019, the same Councillor consented the appointment by Ato 2 of five representatives to the Institutional Consultation Committee. At the last Conference of Mayors on 11 November 2019, the fifth representative for the southeast quadrant was appointed. Previously the Conference of Mayors had identified the four representatives for the Rome, north, east and northeast quadrants.

With regard to the mandatory Agreement for the management of hydraulic interference of the Pescara – Le Capore aqueduct system signed on 2 February 2018, during the Conference of Mayors of 15 April 2019 some amendments were approved which do not substantially change its contents but were necessary to fully implement the Agreement itself (payment terms, adjustment of reporting obligations, etc.). The agreement was signed on 14 May 2019 by representatives of the Ato 2 Central Lazio – Rome and Ato 3 Central Lazio – Rieti.

With regard to the derivation concessions, it is important to note that on 10 July 2019 representatives of the Lazio Region, Roma Capitale and Acea Ato 2 signed the specifications for the renewal of the Pescara – Le Capore derivation concession, which feeds the Pescara – Le Capore aqueduct, the capital's main water supply infrastructure. The renewed concession, which will expire in September 2031, is the preparatory act for the construction of the new upper section of the Pescara, necessary to safeguard and strengthen this work of great strategic importance, which the management of the Acea Group has decided to include in the 2019-2022 Business Plan. On the other hand, the appeal by Acea and Roma Capitale against the regional measure regulating the stop to use of water from Lake Bracciano was rejected as unfounded, with sentence 167/2019 issued on 6 September 2019 by the Superior Court of Public Waters. The applicants had in fact challenged the Regional Measure of December 2017, subsequent to the orders to stop the use, which reaffirmed the role of the lake as a “mere strategic water reserve”, making any future reactivation of use subject to authorisation by the Region, only in the event of an actual emergency and in compliance with ecological balances.

Also worthy of note is the establishment of a permanent technical roundtable on diffuse pollution coordinated by the Lazio Region and composed among others of Acea Ato 2, Arpa Lazio, ASL, Città Metropolitana di Roma Capitale, Pomezia and Istituto Superiore di Sanità. In 2016, in the Municipalities of Pomezia, Ardea and Ro-

ma Capitale, extensive groundwater contamination by chlorinated substances of non-natural origin was found in some drinking water supply wells. The water from these wells was promptly mixed and distributed to the population in full compliance with drinking water regulatory requirements. From the roundtable it was found that the contamination dates back about 15 years and it is presumed to have been caused by illegal disposal of chlorinated substances directly underground, with one or more sources of contamination, at the moment still unknown.

Moreover, from the same roundtable arose the need to start the preparation of a regional policy plan for the management of diffuse pollution, as established by art. 239, paragraph 3 of the Environmental Consolidation Act. This plan could be a useful and essential tool for the management of individual cases of diffuse pollution in the region, including through the definition of agreements with the competent territorial administrations and technical research and control bodies. With Council Resolution no. 130 of 12 March 2019, published in BURL no. 24 of 21 March 2019, the Lazio Region started the procedures for the preparation of the aforementioned Plan, establishing that it would be drawn up by the Regional Environmental Policies and Waste Cycle Directorate based on the guidelines contained in ISPRA document no. 146/2017 "Criteria for the preparation of diffuse pollution management plans".

Finally, note also the semi-annual report on the management of the IWS in the Lazio Region – H2 2018, prepared by the Regional Authority for the Integrated Water Service and published in BURL no. 11 of 5 February 2019. The document is divided into two parts. The first part deals with legislative and regulatory changes and the main relevant issues in H2 2018, while the second part provides a brief overview of the implementation of the IWS in the Lazio Region. At the date of this report, the Report for H1 2019 has not yet been published.

Events after the end of the 2019 financial year

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

The measure amends and supplements the TIBSI – Integrated text on the methods for applying the social water bonus for the supply of water to economically disadvantaged domestic users (Resolution 897/2017/R/IDR) in accordance with article 57-bis of Italian Law no. 157 of 19 December 2019 (so-called tax decree).

The social water bonus will therefore also be granted to resident domestic users benefiting from Universal Basic Income or Pensions, in addition to those undergoing economic and social hardship for which it was already provided. It will also be applied to the variable share of sewerage and purification services, again with reference to the essential amount of water equal to 50 litres/inhabitant/day. As a result, the related UI3 tariff equalisation component, until now applied only to aqueduct volumes, will also be added to the aqueduct, sewerage and purification fees.

The new provisions will apply as of 1 January 2020 and those receiving universal basic income and pensions will be able to apply for admission from 1 February 2020.

Communication of 9 January 2020 "Integrated water service contract quality data".

With this press release, ARERA announced the publication of IWS operator performance data on its website, which the operators submitted for the first two years (2017 and 2018) of full application of the contractual quality regulation introduced by resolution 655/2015/R/IDR, consistent with the lines of action outlined in

its 2019-2021 Strategic Framework (resolution 242/2019/A). The publication of the data, aimed at strengthening consumer awareness of the services offered by the various operators, is based on 28 specific standards and 14 general standards of RQSII related to the following aspects: initiation and termination of the contractual relationship; management of the contractual relationship; billing; management of complaints and written requests; management of branches and telephone services.

Resolution 8/2020/R/IDR of 21 January 2020 "Definition of the arrangements for managing the Guarantee Fund for water works".

The measure regulates the management and use of the Water Works Guarantee Fund, in line with the Italian Prime Ministerial Decree of 30 May 2019, also taking into account the provisions of the MEF Ministerial Decree of 19 November 2019 concerning the State's guarantee of last resort. The requirements and conditions for gaining access to the guarantee and the related reporting, communication and monitoring obligations in connection with the issue of the guarantee are specified.

ELECTRICAL REGULATION

ARERA 2020-2022 Strategic Plan

With resolution 242/2019/A ARERA confirmed the strategic guidelines set out in consultation document 139/2019/A that will guide the current term of the Authority in the period 2019-2021 and outlines the strategic objectives and main lines of action.

Of particular interest for ARERA is: 1) the protection and awareness of the final customer, 2) the simplification of flows, 3) the orientation of developments and investments and 4) the innovation of the system to be achieved, including through experimental projects.

WACC rate of return

In 2019 the Authority updated the Integrated Text for the calculation and updating of the rate of return of investments in electricity and gas infrastructure for the period 2016-2021 (TIWACC).

Indeed, Resolution no. 570/2019/R/gas confirms the rate of return on gas distribution at 6.3% until 2021 and aligns the rate of gas metering with that of distribution in the years 2020-2021, reducing it by 0.5% (from 6.8% in 2019 to 6.3%).

ARERA ELECTRIC SERVICES: ENERGY INFRASTRUCTURE SEGMENT

Distribution and metering tariffs

In 2019, with Resolution 126/2019/R/eel – Launch of proceedings for the infra-period updating of the regulation of tariffs and the quality of electricity transmission, distribution and metering – and with several consultation documents and requests for information, ARERA updated the tariffs and the quality of electricity transmission, distribution and metering for the 2020-2023 regulatory period as defined by Resolution 568/2019/R/eel – Update of the tariff regulation of electricity transmission, distribution and metering for the 2020-2023 interim regulatory period.

For aspects relating to distribution and metering, it envisages:

- the recognition of operating costs in the 2020-2023 interim period, taking as a reference the operating costs for the year 2018 and establishing a symmetrical distribution between enterprise and users of the productivity recovery made in the first interim period (2016-2019);
- the activation of the sharing of net revenues from the use of the electric power infrastructure for purposes additional to electric power service;

- the establishment of a mechanism for the recognition of non-collectable receivables in the event of situations of exceptional arrears relating to the network tariff portion, but postpones its definition to a subsequent measure;
- the promotion of new aggregations between distribution companies;
- the possibility to achieve an increase in the rate of return on invested capital upon request and in a single solution as envisaged in the TIT of 2008-2011 and 2012-2015 (respectively, for the first period, in article 11 and, for the subsequent period, in article 12);
- the extension of the discounts provided for changes in power requested by domestic customers, and in 2020 the method of operation of an equalisation mechanism will be defined with regard to the discounts provided in the period 2016-2019;
- the gradual application over the period of the reactive energy fees;
- the extension of the current rules applied to vehicle recharging points open to the public until the end of the regulatory period;
- the remodulation of the calculation of interest on arrears due to CSEA.

Electricity distribution quality

With resolution 566/2019/R/eel – Approval of the Integrated text of the output-based regulation of electricity distribution and metering for the 2020-2023 interim period, issued following consultation no. 287/2019/R/eel, ARERA updated the TIQE for the 2020-2023 interim period.

Specifically, it envisages:

- the confirmation of the year 2023 for the achievement of continuity target levels, granting them only to the areas with the worst levels of continuity;
- the introduction of a special incentive scheme for critical territorial areas;
- the establishment of a mechanism of regulatory experiments to help improve the quality of service;
- the introduction of the recording of the number of meters replaced due to faulty display;
- from 2021 comparative publication also for voltage dips;
- limiting the premium on the individual project to improve the resilience of the networks to a maximum value equal to the cost of the project itself.

Smart meter 2G

With Resolution no. 306/2019/R/eel – Update for the three-year period 2020-2022 of the directives for the recognition of the costs of second-generation (2G) smart metering systems for the measurement of low-voltage electricity and commissioning provisions – ARERA updated for the three-year period 2020-22 the directives for the preparation of plans for the commissioning of second-generation (2G) smart metering systems and defined the cost recognition mechanisms and penalties for failure to implement the plan or for failure to meet expected performance levels.

Although with slight changes, the guidelines presented in DCO 100/2019/R/eel were confirmed, specifically:

- the major DSOs must start the installation phase by 2022 and finish by 2026 (at least 95%), with an intermediate step to be achieved by 2025 (90% of the planned installations);
- it confirms the general principle of not recognising costs associated with voluntary early disposal of 1G meters (so-called stranded meters), and to avoid “two-speed country risk” distribution companies that have yet to submit to the Authority their “2G smart metering system commissioning plan”. (PMS2) will have PCO2 calculated in such a way as to encourage the shortening of the current gap;
- starting from year 4, penalties are envisaged for failure to meet expected performance levels (only monitoring is carried out in

the first three years of PMS2), with annual and multi-annual ceilings on penalties.

In September 2019 areti sent the Authority a request for admission to the recognition of this type of investment and held a public session to present the plan in October 2019.

The plan envisages the replacement of 2.3 million meters by 2034 with a total expenditure of € 546 million, of which € 318.9 million in capital expenditures. The consultation phase of areti's 2G smart meter plan envisaged in resolution 306 ended in November. The Authority is expected to publish the resolution approving the costs of areti's 2G smart meter systems in 2020.

Resilience

With Resolution 668/2018/R/eel, following two consultations the Authority established initiatives on the resilience of networks. To this end, it has provided incentives for projects aimed at increasing the electricity distribution network's resilience to weather conditions.

The areti company sent ARERA its 2019-2021 resilience plan in order to participate in the incentive mechanism of rewards and penalties as early as 2019. With resolution 534/19 ARERA resolved to include the projects in areti's 2019-2021 Resilience Plans in the mechanism of premiums and/or penalties. About 230 projects are planned for a total of € 69 million in investments, mainly concentrated in 2020, designed to mitigate the risk of heat waves (most of the projects) and flooding (the balance).

Termination of transport contracts for user breach

With Resolution 300/2019/R/eel – Urgent amendments to the Authority's Resolution 50/2018/R/eel concerning uncollected general charges – ARERA excluded from the quantification of the uncollected receivables (to be repaid by means of the current mechanism of Resolution 50/2018) any interest on arrears billed to transport users and recalculates it at the legal interest rate.

Subsequent Resolution 495/2019/R/eel – Provisions on the recognition of non-recoverable receivables relating to general system charges not collected by electricity distribution companies. Confirmation with additions to the Authority's resolution 300/2019/R/eel – clarifies that the provision of Resolution 300/2019 refers to receivables arising after 11 July 2019 (date of entry into force of Resolution 300/2019/R/eel) and provides that the amounts relating to applications already submitted shall be settled by 31 March 2020.

CADE update

With two separate consultations, no. 412/2019/R/eel – Modification of the process of termination of dispatching and transport contracts and activation of services of last resort in the electricity sector – and no. 530/2019/R/eel – Updating of the standard network code for the electricity transport service – the Authority described its guidelines on reducing the exposure of distribution companies by acting on the timing of debt collection and contractual termination, thereby reducing the cost of the system of guarantees for transport users who are in compliance. In order to strengthen the system, it also proposed measures aimed at reinforcing guarantees, with particular attention to the rating and the insurance surety, as well as the clause verifying the regularity of payments and the procedures for verifying the adequacy of the amounts of guarantees given.

Other Deliberations of the Authority

Financial items relating to electricity destined for the states included in the Italian state (Vatican City)

With Resolution 58/2019/E/eel ARERA initiated a fact-finding investigation aimed at better understanding the methods used to manage the regulation of the financial items relating to electricity destined for countries within the Italian territory. At the conclusion of the first analyses, Resolution 491/2019/E/eel closed the preliminary investigation and launched consultation 492/2019/R/eel,

with which it defined the Authority's guidelines according to which electricity must be subject to the normal charging rules for the services concerned while it does not consider it appropriate to apply the general system charges.

Riser cables

With resolution 467/2019/R/eel, the Authority initiated an experimental regulation on the modernisation of buildings' old riser cables with effect from 1 January 2020 and for a duration of three years, aimed at:

- performing a national census of old riser cables;
- involving and encouraging the apartment complexes to modernise their riser cables;
- ensuring greater access to the electricity supply;
- gaining useful experience in order to define a subsequent stable regulatory framework.

Integration between electric vehicles and the electricity grid

With consultation 345/2019/R/eel, the Authority expressed its guidelines for the revision of the conditions for the provision of transmission, distribution and dispatching for electricity withdrawn and subsequently fed back into the grid by the storage systems, as well as electricity withdrawn from auxiliary generation services.

Automatic compensation to end customers for long-term interruptions

With Resolution no. 553/2019/R/eel – Closing of the consultation procedure initiated by Resolution no. 404/2019/R/eel for the execution of the Lombardy regional administrative court ruling no. 1901/2019 voiding the Authority's Resolution no. 127/2017/R/eel concerning the extension of automatic compensation to end customers, charged to network operators, for long-term interruptions – ARERA closed the consultation procedure initiated by Resolution no. 404/2019/R/eel for the execution of the Lombardy regional administrative court ruling no. 1901/2019 voiding the Authority's resolution 127/2017/R/eel concerning the extension of automatic compensation to end customers, at the expense of network operators, for long-term interruptions. The measure also takes into account the outcome of consultation 430/2019/R/eel and a request for information from distribution companies regarding automatic compensation to end customers for extended or prolonged interruptions for the period 1 October 2017-20 August 2019.

Losses from electricity distribution grids

With Resolution no. 559/2019/R/eel – Losses from electricity distribution grids: confirmation for the year 2020 of the conventional percentage loss factors and extension of the procedure initiated with Authority Resolution no. 677/2018/R/eel – the Authority confirmed for the year 2020 the values of the conventional percentage loss factors to be applied to withdrawals, injections and interconnections between grids.

ARERA ELECTRIC SERVICES: COMMERCIAL AND TRADING SEGMENT

2020 Budget Law

The 2020 Budget Law, no. 160 of 27 December 2019, abrogated paragraph 5 of art. 1 of the 2018 Budget Law envisaged the non-applicability of the two-year limitation period for consumption in the event of failure or erroneous collection of consumption data resulting from ascertained liability of the user.

The law also introduced additional rules for the benefit of the end customer. Indeed, utilities operators have an obligation:

- to communicate the suspension of supplies in the event of

failure to pay, with adequate notice of no less than forty days by registered letter with return receipt;

- to pay a penalty equal to 10% of the amount that is disputed and not due, in any case, for an amount of no less than € 100, in case of issuing debit bills for which the illegality of the conduct of the manager and the operator concerned is ascertained, for violations relating to the methods of detection of consumption, execution of adjustments or billing as well as for charges of unjustified expenses and costs for consumption, services or goods not due, and of course to reimburse any amounts already paid by the customer.

Collection of general electricity system charges

In the presence of a legislative framework and numerous rulings in this regard which attribute exclusively to end customers the responsibility for the payment of general system charges, with Resolution no. 430/2018/R/eel – Extension of the procedure concerning guarantees and collection of general system charges for the electricity sector, initiated by Resolution no. 109/2017/r/eel, in compliance with the rulings of the Lombardy regional administrative court 237/2017, 238/2017, 243/2017 and 244/2017 – by 30 June 2019 ARERA had planned to define a mechanism to allow sellers to recover general system charges paid since January 2016 (date of entry into force of the electricity distribution network code) but not collected from end customers. At present the issue is very controversial and the Authority, pending a stable determination of the process of collection of general charges, has set up a technical roundtable involving various stakeholders to define a transitional mechanism that allows the repayment of the sums advanced by sellers.

CADE update

Through two separate consultations, no. 412/2019/R/eel – Modification of the process of termination of dispatching and transport contracts and activation of services of last resort in the electricity sector – and no. 530/2019/R/eel – Updating of the standard network code for the electricity transport service – the Authority described its guidelines in order to strengthen the entire system. The proposed actions relate to the reduction of debt collection times and contractual termination, thereby reducing the cost of the guarantee system for compliant transport users. In fact, ARERA hypothesised a reduction in the amounts of the guarantees to be given by sellers, which are currently commensurate with 3-5 months of turnover, down to 2-4 months of turnover. Moreover, it proposed measures to reinforce guarantees, with particular attention to the rating and the insurance surety, as well as the clause verifying the regularity of payments and the procedures for verifying the adequacy of the amounts of guarantees given.

Dispatching contract

With Resolution no. 83/2019/R/eel – Verification of the conformity of proposals to amend the grid transmission, dispatching, development and security code in relation to the system of guarantees to be provided by users of withdrawal dispatching – the Authority positively assessed some proposals to amend Terna's Grid Code with respect to the system of guarantees to be provided by users of withdrawal dispatching. Specifically:

- the minimum value of the guarantee set at € 50,000;
- the reduction of the time for the integration of the guarantee to 7 business days;
- expansion of the payment punctuality observation period to 12 months;
- possibility for users to issue a first-request bank or insurance surety as a guarantee.

With Resolutions 272/2019/R/eel – Provisions functional to the extension of the ex-ante verification of the annual average power value with reference to the switching requests submitted by each

dispatching user – and 494/2019/R/eel – Approval of the proposal by Terna of the method for correlating the financial value of the guarantees given by the dispatching user to its equivalent in mw for the purposes of determining the value of max PMAu for each user – the Authority introduced the concept of Annual Average Power (AAP) value for which the dispatching user is required to issue guarantees. The request for switching is now also subject to the IWS's verification of the AAP value, which cancels the request in the event of a negative outcome. The Authority plans to extend the same mechanism to the transport contract.

Restoration of financial compensation for arrears related to fraudulent withdrawals

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

Following DCO 49/2019 and with subsequent Resolution 119/2019/R/eel – Measures to make the management of fraudulent use by end customers of the standard service more efficient, with greater protection and revision of the mechanism referred to in article 16bis of the TIV – the Authority reinstated the rule governing the compensation mechanism, but with amendments.

It introduced the obligation to issue the invoice for fraudulent withdrawals separately and within 45 days (90 days for invoices already issued in 2016 and 2017) from the date of receipt of the meter data reconstructed by the distributing company, providing for a reduction in compensation of -10% for each month of delay, up to a maximum of -50%.

With the same measure, the Authority therefore specified the timing related to the application to be submitted in 2019 (by 30 September 2019), classified the case of fraudulent use in the absence of a contract and established the information flow, through the IIS, with which the distributor informs the main utility provider of the fraudulent withdrawal that has been ascertained.

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

On 3 June 2019, Acea Energia filed an appeal requesting the annulment of Resolution 119/2019/R/eel contesting the retroactive application of the mechanism linking the amount to be offset to the date of issuing the bill containing the reconstruction for fraudulent withdrawals also for the periods prior to the entry into force of the resolution itself (April 2019), i.e. from 2016 to March 2019 in which there were no specific billing timeframes that would affect the amount subsequently granted to the main utility provider.

On 30 September 2019 Acea Energia filed an application for participation in the compensation mechanism with regard to bills issued in 2016.

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

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

On 21 September 2018, Italian Law 108, which converted Italian Decree Law no. 91 of 25 July 2018, postponed the termination of the price protection schemes until 1 July 2020.

On 31 December 2019, Italian Decree Law no. 162/2019 was approved (so-called 1000 Postponements) establishing a further postponement of the termination of the price protection schemes to 1 January 2022.

In the meantime, with Resolution 59/2019/R/com – Voluntary guidelines for the promotion of electricity and natural gas offers benefiting purchasing groups aimed at domestic end customers and small businesses – the Authority prepared Guidelines (LGA) with voluntary participation for the promotion of commercial offers of electricity and gas benefiting purchasing groups and the creation of IT platforms that can facilitate the aggregation of small consumers. These guidelines, effective from 1 May 2019, establish rules of conduct that purchasing groups are required to observe for a period of at least two years after voluntarily adhering to them.

New Standard service for end of the default service

With a consultation (DCO 397/2019 – Standard service for final domestic customers and small businesses in the electricity sector referred to in article 1, paragraph 60 of Italian Law no. 124/17) ARERA proposed its guidelines on the new Standard Service for small customers (i.e. final customers currently using the default service) who will find themselves without a supplier the day after the termination of the default service, hoping for a gradual transition with the application of this service initially only to non-domestic customers, after the necessary legislative action (approach reiterated also with the subsequent Brief 468/2019/I/com – Brief of ARERA on the recent update of the final prices of electricity and natural gas and on the initiatives launched by it to benefit consumers with regard to the standard service – of 18 November 2019).

The Authority has proposed a three-year service starting from the assignment through tenders of lots (subject of a subsequent DCO) of about 500,000 to 1 million customers, similar in terms of characteristics and level of arrears, which will be reserved for operators with solid economic, financial, managerial and operational requirements.

The service is assigned to the best price at a discount (or increase) of the PCV. The difference between the PCV and the price offered in the tender, called “alpha” fee, will be charged to the customer after 12 months for domestic and 6 for non-domestic customers or immediately if the “alpha” fee is negative and also applied to free market offers, to avoid distortions between the standard and free markets.

The Regulator therefore proposes two possible alternative models of the service:

model 1: with a Single Buyer responsible for procurement and the main utility provider in charge of sales (with the further hypothesis 1bis in which the Single Buyer is also responsible for the management of the amounts paid by end customers and their distribution among the various parties in the chain);

model 2: with the main utility provider in charge of both procurement and sales.

With regard to the contractual conditions, the Authority proposes that they should be equivalent to the standard PLACET offer, including the prohibition of the inclusion of an additional product or service with respect to the supply of electricity, but with the possibility of always being able to offer one's own product on the free market.

The Acea Group submitted its comments in 5 November 2019, pointing out that under Italian Law no. 124 of 2017 (Competition Law), it appears that the scope of application of the new Standard Service is limited only to customers who, on the date of termination of the price protection, were left without a supplier.

Annual report on the management of complaints and the resolution of disputes

With Resolution no. 54/2019/I/com – Annual report on the

treatment of complaints and the resolution of disputes of electricity and natural gas customers – year 2017 – the Authority published the first Annual report on the treatment of complaints and the resolution of disputes for 2017 in accordance with the new procedures introduced by Resolution no. 623/2018/R/com for articles 38 and 39 of the TIQV.

In general, it should be noted that the customers with the greatest theoretical capacity are those most likely to complain. In fact, the unregulated market accounts for 53% of total complaints in the electricity sector and 58% in the gas sector, despite the fact that the free market represents only 43.7% of the 53.4 million end customers served by the 590 sellers under analysis. Moreover, in the unregulated market it is the non-domestic customers with low and medium voltage supply and those with more complex contracts (multisite or dual fuel) who tend to report more critical issues.

2018 annual report on the quality of call centres and written responses to complaints

With Resolutions 330/2019/I/com – Quality of the telephone services of vendors of electricity and gas. Annual Report – year 2018 – and 331/2019/I/com – Annual report on the treatment of complaints and the resolution of disputes of electricity and natural gas customers – year 2018 – the Authority provided the annual customer satisfaction framework for call centre services and written responses to complaints.

With regard to the quality of call centres, the report showed a decrease in the number of calls compared to 2017, particularly for operators who have developed more technological contact channels, like web services and smartphone apps. In general, the overall satisfaction index (ICS) for call centre services remained high and stable in 2018 (92.3).

With regard to the quality of written responses to written complaints, the report showed a decrease in both complaints and written requests for information compared to 2017, respectively -8.9% and -22.7% in the free market, -17.4% and -16.4% in the standard market. In particular, in 2018 billing issues were again the main topics of complaints and conciliations.

ARERA inspection on sanctioning procedure for failure to or late payment of automatic indemnities

On 20 February 2019, the Authority carried out an inspection at Acea Energia's headquarters to verify 1) the cessation of the conduct contested in 2015 by resolution 111/2015/S/EEL – Initiation of proceedings for the adoption of sanctioning and prescriptive measures for failure or late payment of automatic compensation – concerning the failure to pay compensation to standard service customers within eight months of the date of receipt of the written complaint, 2) as well as the implementation of the commitments made therein.

On that occasion, Acea Energia provided all the documentation requested by the Authority (mainly relating to demonstrating the correct payment of compensation in the event of responses to complaints sent late) and as of today has not received any complaint from the Authority.

Other Deliberations of the Authority

The electricity and gas “Consumption Portal” online

With Resolution no. 270/2019/R/com – Establishment of the electricity and natural gas consumption portal in implementation of Italian Law 205/2017 – the Authority announced the availability of the “Consumption Portal” as of 1 July 2019 (www.consumienergia.it), an instrument integrated with the IIS and managed by the Single Buyer in order to “empower” the final customer with respect to its electricity and gas consumption (regardless of the level of consumption) and to comply with the provisions of Italian Legislative Decree 102/2014 on the right of the final customer to access its use data. Subsequent developments allowed access to the Portal by third

parties authorised by the customer (e.g. energy service providers) and the development of synergies with the Offers Portal, so that customer annual expenditure estimates are calculated on the basis of actual past consumption.

Provision of GAS measurement data via IIS

With Resolution 271/2019/R/gas – Provisions relating to the process of making available the technical data of the redelivery points and the measurement data to the Integrated Information System and modification of the communication standards with reference to the gas sector – and subsequent Resolution 6/2019 – Modifications and integrations to the Operating Instructions and the xml structures to be used for the exchange of information with respect to the communication standards for the natural gas sector – the Authority gave a mandate to the IWS Operator for the publication of new data files, which, from February 2020, will be used for:

- the provision of technical data, information and measurement data collected during the replacement of the meter and other technical service;
- the provision of the periodic measurement data collected in accordance with the TIVG, the self-readings made by end customers, the measurement data collected during switching, as well as other technical services requiring the collection of measurement data;
- making available the corrections to the measurement data submitted with the two previous flows.

At the same time, the Authority has defined the procedures and timing that, given the specified starting date, allow the distribution companies to transfer the largest number of measurements to the IIS to be used for their settlements.

The effective date of the new data files was later extended to 1 June 2020 with Resolution no. 493/2019/R/gas – Update of the methods and timelines for making available the technical data of redelivery points and measurement data for the gas sector to the Integrated Information System.

New regulations for the compensation system on the IIS – gas

With Resolution 406/2018/R/com – Entry into force of the regulation of the indemnification system within the Integrated Information System, for the electricity and natural gas sectors – the Authority established that from 1 June 2019 the processes relating to the indemnification system would be managed exclusively within the IIS, even for the gas sector.

Reform of charges for domestic customers

With Resolution no. 626/2018/R/eel – Further deferral of the completion of the reform of the tariff components to cover general system charges for domestic electricity customers, as set out in the Authority's Resolution no. 582/2015/R/eel – the Authority further delayed the completion of the tariff reform for general system charges for domestic customers until 2020. In the meantime, from 1 January 2019 only DISPbt (euro/POD) will apply to resident domestic customers, while the tariff structure already in force in 2018 will be confirmed for customers participating in the heat pump tariff experiment (non-staggered general charges and DISTBT with monomial structure for residents and non-residents).

Electronic invoicing

With resolution 712/2018/R/com – Interventions following the provisions of Italian Law 205/2017 on electronic invoicing with regard to Bill 2.0 for the standard network code for the electricity transport service and for the standard network code for natural gas distribution – the Authority established the first functional provisions to coordinate the regulation of summary bills for end customers and electricity and natural gas transport invoices issued by distributors with new laws in force since 1 January 2019 on

electronic invoicing as envisaged by the 2018 Italian Budget Law. With the subsequent resolution 246/2019/R/com – Additions and amendments to the Authority’s resolution no. 712/2018/R/com on electronic invoicing following the provisions of Italian Law 205/2017 – the Authority returned to the subject, supplementing and amending some technical aspects of the previous resolution:

- the possibility to include in the “invoice file” (replacing the summary bill) the corresponding alphanumeric code (unique and encrypted);
- the inclusion of the reference to the corresponding electronic invoice number submitted to the SDI in the summary bill;
- the obligation to record and archive the summary bill, details and accounting documents of the distribution service for at least 10 years.

POWER GENERATION REGULATION

District heating

2018 was a year of intense development with regard to regulation in the district heating sector, attributed to ARERA by Italian Legislative Decree 102/2014.

During the year and after an intense activity of analysis and discussion with operators and associations, ARERA began to outline the guidelines for the future regulation of district heating.

With resolution 24/2018/R/tlr and subsequent resolution 277/2018/R/tlr, ARERA issued the “Consolidated Law on the Regulation of the criteria for determining the connection fees and the procedures for the exercise by the user of the right of withdrawal for the regulatory period 1 June 2018-31 December 2021 (TUAR)” in which it defines the regulation of the criteria for determining the connection fees and the procedures for the exercise by the user of the right to deactivate the supply and disconnection from the district heating network for the regulatory period 1 October 2018-December 2020.

With resolution no. 574/2018/R/tlr of 13 November 2018, ARERA defined the information obligations of parties operating in the district heating and cooling sector with regard to the Operators’ and Territorial Register and the procedures for submitting applications for exclusion of networks from the Authority’s regulation. The document, called “Information requirements for district heating and cooling operators (OITLR)” establishes that:

- a) parties operating in the district heating sector that have not yet registered in the “Operators’ Register” must do so by 31 December 2018 based on the new provisions;
- b) network operators must verify and, where necessary, supplement or update the information relating to each network they manage by 31 March 2019 at the latest using the “Anagrafica Territoriale (ATT)” computer protocol.

With Resolution 661/2018/R/tlr, ARERA defined the regulation of the commercial quality of the district heating service for the regulatory period 1 July 2019-December 2021 and provided for the initiation of a procedure for the revaluation of the provisions on the exercise of the right of withdrawal established by the TUAR and some amendments thereto. ARERA has also launched a consultation on the technical quality of district heating, DCO 691/2018/R/tlr, which is expected to be completed in 2019. Unlike the regulation of other regulated sectors, the regulation of district heating lacks the typical tariff oversight, because while the sector is regulated it operates under market conditions and not according to tariffs established by ARERA. Therefore activities related to quality are ARERA’s main contributions to the sector.

In 2019, the regulator published the following integrated texts relating to the sector: 1) RQTT – Regulation of the technical quality of district heating and cooling services – resolution 548/2019/R/tlr and 2) TITT – Transparency of district heating and cooling services – resolution 313/2019/R/tlr.

With resolution 313/2019/R/tlr, the Regulatory Authority for Energy Networks and Environment (ARERA) defines the transparency regulations for the district heating and cooling sector for the regulatory period 1 January 2020-31 December 2023. The scope of the intervention includes the minimum contents of supply contracts and invoicing documents, the methods of publication of prices applied by operators and other information concerning the quality of service and environmental performance. It is also envisaged that the Authority will launch a price monitoring system.

With resolution 548/2019/R/tlr (RQTT), ARERA adopted the regulation of the technical quality of the district heating service, with particular reference to safety and continuity of the service, for the regulatory period 1 July 2020-31 December 2023.

Hydroelectric concessions

Italian Law no. 12 of 11 February 2019, which converted Italian Decree Law no. 135 of 14 December 2018 (the “Simplifications” decree), introduced important changes to the regulation of concessions for large hydroelectric derivations. In particular, article 11-quater of Italian Law no. 12 of 11 February 2019 envisages an amendment to Italian Legislative Decree no. 79/1999 essentially establishing the regionalisation of ownership of hydroelectric works upon expiry of concessions or in cases of forfeiture and renunciation thereof. In detail, the article establishes that so-called “wet works” (dams, canals, pipelines, etc.) will be transferred free of charge to the regions, while the so-called “dry works” (buildings, machinery, electrical equipment, etc.) will be transferred to the regions upon payment of a price to be quantified net of depreciated assets.

“Where they do not consider that there is an overriding public interest in a different use of water, incompatible with maintaining the use for hydroelectric purposes”, the Regions may award concessions for large hydroelectric derivations:

- to economic operators identified by means of public tenders;
- to companies with mixed public-private capital where the private partner is chosen by means of public tenders;
- through forms of public-private partnerships.

The regions are given until 31 December 2020 to put in place a law regulating the methods and procedures for the allocation of concessions for large water derivations for hydroelectric purposes.

For all concessions expiring before 31 December 2023 and for those that have already expired, the regions “govern by law the methods and conditions of the outgoing concession holder for the continuation of the derivation on behalf of the regions themselves”.

ENVIRONMENTAL REGULATION

Arera activity: Environment Segment

With Resolutions 82/2018/R/rif, 225/2018/R/rif and 226/2018/R/rif three proceedings were initiated for the adoption of measures, respectively:

- provision of a system of safeguards for the management of complaints and disputes of users;
- tariff regulation;
- quality of service regulation.

These initial documents were followed by resolutions containing the Integrated Text:

- Resolution 443/2019/R/rif – MTR – Integrated waste management service tariff method;
- Resolution 444/2019/R/rif – TITR – Transparency in the waste management service for the regulatory period (1 April 2020-31 December 2023).

The Integrated Waste Management Service Tariff Method, Resolution 443/2019/R/rif – MTR establishes the limits of the tariffs and prepares four different schemes that can be adopted by local

authorities and operators with respect to the objectives of improving service to the public.

The services regulated by the new tariff method are: 1) street sweeping and washing; 2) collection and transport of municipal waste; 3) treatment and recovery of municipal waste; 4) treatment and disposal of municipal waste; and 5) management of tariffs and user relations.

The formulas indicated in the RDF confirm that the total tariff revenue of reference (TARI 2020-2021) is the sum of revenue to cover fixed and variable costs recognised by the Authority in continuity with Italian Presidential Decree no. 158/99 and determined according to criteria of efficiency, transparency and uniformity, reclassifying the charges attributable to the individual activities of the integrated cycle. For the purpose of assessing the costs recognised to the operator, the main new development lies in the fact that the Method refers to costs incurred that are reliable and certain, as resulting from obligatory accounting sources, compared to the methodology adopted in the sector up to that moment. This change is significant since the tariff method pursuant to Italian Presidential Decree no. 158/99 envisaged the recognition of costs on the basis of their inclusion in the economic and financial plan, and therefore with reference to planned and/or estimated costs.

The criteria established by the Authority will be applied in the first tariff period indicated as the years 2020-2021, both with regard to the monitoring and the valuation of efficient costs for 2018 and 2019 (with the possible quantification of any adjustments).

However, the regulation the sector is subject to is gradual and asymmetrical in that it takes account of the different territorial starting conditions. In fact, as ARERA itself states, this is a first implementation phase characterised by strong lack of uniformity in governance at a local level, and for which the Authority envisages that it will be the local government – or other territorially competent entities like the Region or other bodies designated by the Region, even at a supra-municipal or provincial level – that carry out the validation that the regulator deems necessary in order to ensure complete, consistent and adequate information starting from the data submitted by the operators.

This first implementation phase will be followed by a second phase in which the Authority will put in place (as clearly indicated in Resolution 443/2019/R/rif) tariff regulation criteria for access to treatment plants, indicating that specific tariff parameters will be defined for each type of plant where the treatment (recovery and disposal) of waste can be distinguished. The adoption of the first consultation document on access charges for municipal waste treatment plants will be prepared as early as the first half of 2020. In fact, at the moment the topic of plant engineering is only dealt with in terms of the ARERA 2019-2021 Strategic Plan, in which under point “OS. 13 Promotion of adequate infrastructure for the management of the waste cycle” ARERA specifies the main lines of action:

- adoption of (asymmetric) tariff regulation for the different treatment and disposal services and concurrent definition of criteria for access to the plants; development of mechanisms to promote treatment investments, also by assessing ways of allocating capacity over several years and promoting the most relevant ones in terms of benefits for the system;
- introduction – taking into account the investment needs – of mechanisms to promote social acceptance of the investment needed in strategic treatment plants for the rebalancing of physical waste flows and the closing of the cycle.

One of the regulatory elements included in the tariff method scheme for the integrated waste system is the waste sector WACC, equal to 6.3% for the period 2020-2021. Although the Authority recognises strong differences in the financial and ownership structure, it does not introduce significant new elements or differentiation with respect to traditional regulated sectors, referring to the electricity and

gas integrated text, TIWACC – resolution 583/2015/R/com and following. The current design recognises the same returns for investments in collection and transport activities (asset light with a prevalence of personnel-related operating costs) and for investments in treatment (asset intensive).

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

Sustainable development

The 2019 sustainability scenario has been subject to evolutionary pressures from public and private institutions both nationally and internationally. Of note, for example, is the new direction given by the European Union with the Action Plan to finance sustainable growth, and subsequently with the Green New Deal, which the Commission chaired by Ursula von der Leyen has placed at the centre of its strategy. The latter, closely related to the objectives of the UN Agenda 2030 (SDG), aims to reconcile the economy with the principles of environmental protection and social inclusion, espousing the paradigm of the circular economy. Making the EU climate-neutral in 2050 and decoupling growth from resource consumption and ensuring a balanced social transition are some of the biggest challenges that can be dealt with also thanks to adequate financial investment. This is in sync with the new policy of the European Investment Bank (EIB), which from 2020 plans to align its activities with the objectives of the Paris climate agreement, and from 2021 to interrupt funding for fossil fuel projects. However, notwithstanding strong positions like those of Europe, at an international level a setback was suffered due to the substantial failure of the UN Climate Conference (COP 25) held in December in Madrid, which postponed some important decisions until 2020, including the definition of the rules for the carbon market.

Confirming the European position, national institutions are oriented towards the cross-cutting integration of sustainability and support for the transition to a circular economy. Regulatory interventions have already produced basic measures such as the climate law decree, then converted into law, which introduces among other things the transformation of the CIPE into CIPESS (Interministerial Committee for Economic Planning and Sustainable Development), legislation on the end of waste and an investment plan for the Italian Green New Deal outlined in the 2020 finance law. These initiatives should facilitate making up for the delays that our country is experiencing in the pursuit of the SDGs despite encouraging signs, as noted in the ASviS 2019 report presented in October to the highest Italian institutional offices.

Another sign of the change under way, in this case coming from the production system, was launched by the Business Roundtable, an association that brings together more than 180 of the largest U.S. companies, which by redefining in its statement the purpose of the companies has unequivocally affirmed their role in the creation of long-term value for the benefit of all stakeholders. Similarly, in Italy great attention was paid to the announcement of the updating of the Code of Self-Regulation for Listed Companies, which will represent a best practice for companies in adopting strategies increasingly oriented towards sustainability: “The primary task of the board of directors is to pursue the company’s ‘sustainable success’, where long-term value creation for the benefit of shareholders is pursued taking into account the interests of other stakeholders”.

Taking into account these developments, Acea continues its development by integrating sustainability in its strategies and organisation. In this regard the updates to the Business Plan and the Sustainability Plan for 2019-2022 are particularly worthy of note, with an increase in investments related to sustainability targets of € 400 million, equal to half of the entire amount of new investments, for a total value of investments linked to sustainability aspects over the plan peri-

od of €1.7 billion. An initial sharing of the programme and the main initiatives put in place by the company on sustainable development and innovation with the public and qualified stakeholders was made possible during the year thanks to two important initiatives: Acea Sustainability Day and Acea Innovation Day.

Environmental and energy impacts

The natural environment is the scenario where the activities of the Group are performed and is to be preserved with a responsible and efficient use of resources, protecting sources, safeguarding the natural areas where the plants and service networks encroach, mitigating the physical and the external impacts generated in the ecological context of the operating processes. One example is energy generation, where repowering initiatives are constant in order to modernise plants including by pursuing lower environmental impacts in terms of emissions, or the integrated water service, where Acea's responsible management starts with the supply phase, making it available to people, and concludes with a commitment to return wastewater to the receiving body in the best possible conditions, and again to the environmental services sector linked to waste management, where the commitment to the ecosystem concerns both operational processes and the transformation of waste in a circular economy, as is the case for the treatment of sewerage sludge.

In keeping with the desire to operate while respecting and protecting the surrounding environment, Acea implemented initiatives aimed at better managing the aspects of its activities that have a general impact on the environment and specifically on energy, also thanks to the use of advanced systems and technologies.

- Management systems: the widespread adoption of environmental and energy management systems is a concrete response on the importance of environmental dynamics for Acea and a managerial tool for continuous improvement in performance.
- Mobility management: in this context, the Acea Group has undertaken initiatives to reduce employee travel and to encourage less polluting means of transport.
- Carbon Disclosure Project (CDP): Acea publishes its initiatives, communicating them to the international CDP organisation, which produces annual online reports aimed at informing analysts and lenders about the levels achieved by companies in managing risks and opportunities related to the topic of climate change.
- Green purchases and environmental awareness development of the supply chain: Acea has set itself the objective of increasingly integrating the assessment of environmental aspects through the adoption of CAMs for the supply of compatible product categories. Moreover, it has committed to assessing its suppliers on an annual basis with regard to the environmental performance of the products/services supplied, and to inform/train contractors and subcontractors regarding the environment.
- Energy management: using energy management Acea Group promotes the improvement of the energy performance of plants and buildings by implementing best practices to reduce energy consumption and encourage the use of energy from renewable sources.

Acea has included actions to combat climate change in its 2019-2022 Sustainability Plan, which includes both mitigation and adaptation actions and monitors the matter and related EU and international developments (the COP – Conference of the parties and European legislation). Environmental issues related to the array of services provided by the Group are included in the Organisation and Management Model pursuant to Italian Legislative Decree no. 231/2001.

Development and technological innovation

The Innovation, Technology & Solutions Function reports directly to the CEO and has the task of ensuring a model of innovation for the Group through the adoption of processes and approaches typical of open innovation, with the involvement of internal and external stakeholders as defined by the Industrial Plan. In this context, the dissemination of a culture of innovation has been encouraged by involving all Group employees in specific initiatives; partnerships have been established at a national and international level with the aim of strengthening Acea's positioning in the innovation ecosystem and identifying new business opportunities; innovative solutions (proof of concept) from start-ups and SMEs have been analysed and tested.

Development of human capital

People are the most important resource and they are given the tools and skills necessary to respond effectively to the challenges of the business during the main stages of corporate life: selection, welcoming, training, rewarding and development.

Entrepreneurship, teamwork and action are the three driving values of the Leadership Model upon which the Group's initiatives are built to achieve the goals of the strategic plan and the sustainability plan. The Human Resources Function works on skills and improving people management and development processes in three different ways:

- professional development, managerial growth, training and development of skills;
- involving people in the Group's identity;
- inclusion and organisational well-being, recognising the strategic value of diversity and workers' health and safety.

Sustainable management of the supply chain

At the service of the community and the public, Acea is fully mindful of the virtuous partnership that can be established with the supply chain. In fact it attributes greater value and reliability to contractors that have certified quality, environmental, safety, energy and social responsibility management systems and provides a self-assessment questionnaire on these issues for the majority of suppliers that register for qualification systems. In terms of green procurement, Acea applies the Minimum Environmental Criteria in its tender specifications and is working to extend this same approach to product categories that are not yet mentioned in the relevant Ministerial Decrees. With the aim of raising awareness and supporting the continuous improvement of the supply chain, Acea also carries out second-party verifications and strict safety controls at construction sites.

This brings to light good practices and, at the same time, identifies shared paths towards growth and improvement.

Health and safety in the workplace

Acea works hard to instil a widespread safety culture, involving all its employees and the supply chain. It therefore carries out targeted awareness campaigns addressed both internally and to contractors, directly involving people, in the belief that it is necessary to set up effective tools for the prevention of accidents. For this purpose, it has also implemented an advanced risk assessment model, not to mention control and mitigation measures. Acea's "Vision" of workplace safety – which is the prelude to the preparation of a model of Safety Governance – and the theoretical and practical tools to achieve it have been defined together with top management. The Parent Company set up a Group RSPP Coordination Committee, which meets quarterly in order to, among other things, share the results of safety performance analyses and share experiences and good practices. A special H&S Dashboard was also prepared and has become a shared tool for the reporting of occupational health and safety performance.

TREND OF OPERATING SEGMENTS

ECONOMIC RESULTS BY SEGMENT

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

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

31/12/2019	Environment	Commercial and Trading	Overseas	Water	Energy Infrastructures				Engineering and Services		Other	Consolidated Total	
€ million					Generation	Distribution	IP	Adjustments	Total	Corporate	Consolidation adjustments		
Revenues	183	1,619	48	1,049	80	559	45	(1)	683	79	143	(574)	3,230
Costs	131	1,550	32	544	35	214	43	(1)	291	66	148	(574)	2,188
EBITDA	52	69	17	505	45	345	2	0	392	13	(6)	0	1,042
Depreciation/ amortisation and impairment charges	31	51	9	253	22	130	2	0	154	2	24	0	524
Operating profit/loss	21	18	8	252	23	215	(0)	0	238	11	(29)	0	518
Capex	52	43	7	380	19	266	3	0	288	2	22	0	793

The revenues in the above table include the condensed result of equity investments (of a non-financial nature) consolidated using the equity method.

31/12/2018	Environment	Commercial and Trading	Overseas	Water	Energy Infrastructures				Engineering and Services		Other	Consolidated Total	
€ million					Generation	Distribution	IP	Adjustments	Total	Corporate	Consolidation adjustments		
Revenues	174	1,693	39	841	81	559	48	(2)	687	74	129	(566)	3,072
Costs	108	1,617	24	408	32	242	54	(2)	326	56	164	(566)	2,139
EBITDA	66	76	15	433	49	317	(5)	0	361	18	(35)	0	933
Depreciation/ amortisation and impairment charges	27	72	7	212	24	129	9	0	162	3	(28)	0	455
Operating profit/loss	38	4	8	221	25	188	(14)	0	199	15	(7)	0	479
Capex	20	25	7	330	16	218	4	0	238	2	10	0	631

INDUSTRIAL SEGMENTS

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



ENVIRONMENT OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2019	31/12/2018	Change	% Change
WTE conferment	kTon	437	466	(29)	(6.2)%
Net Electrical Energy transferred	GWh	327	355	(28)	(7.9)%
Waste coming into Orvieto plants	kTon	100	89	11	12.1%
Waste Recovered/Disposed of	kTon	682	565	116	20.6%
of which					
Incoming waste composting plants, sludge and liquids disposed of	kt	577	480	98	20.3%
Slag and Ash produced by WTE	kt	73	86	(13)	(14.6)%
Sorting plant incoming waste (Demap)	kt	31	0	31	n.s.

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	182.9	173.9	9.0	5.2%
Costs	130.9	108.3	22.6	20.9%
EBITDA	52.0	65.6	(13.6)	(20.8)%
Operating profit/(loss) (EBIT)	21.1	38.4	(17.4)	(45.2)%
Average headcount	389	360	29	8.1%
Capex	51.9	20.0	31.9	159.6%
Net financial debt	256.5	203.6	52.9	26.0%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Environment Segment	52.0	65.6	(13.6)	(20.8)%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	5.0%	7.0%	(2.0 p.p.)	

The Segment closed the financial year 2019 with an EBITDA of € 52.0 million (- 20.8%). This result is mainly attributable to **Acea Ambiente** (- € 17.6 million) due mainly to lower revenues from CIP 6 tariffs which, although extended until 31 July 2019, produced a reduction of € 16.7 million and other residual effects such as lower revenues from electricity sold and contributions related to the San Vittore plant in Lazio because of a prolonged plant shutdown and higher costs for tariff increases on CO₂.

The EBITDA of the Segment also increased due to the change in the scope of consolidation as a result of the first-time consolidation of the company **Demap** (+ € 1.8 million) and **Berg** (+ € 0.5), partially offset by **Bioecologia** (- € 0.2 million). Finally, the first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower costs for leases and rentals for € 1.0 million.

The average number of staff as at 31 December 2019 was 389, 29 more than the previous year. The growth is mainly due to the consolidation of **Berg** (+ 4 units) and **Demap** (+ 7 units), as well as to the increases recorded by **Bioecologia** (+ 9 units) and **Acea Ambiente** (+ 8 units).

Investments in the area amounted to € 51.9 million, up by € 31.9 compared to the previous year, and mainly refer to 1) revamping at the Monterotondo Marittimo plant; the inauguration of the expansion of the plant for the treatment of composting waste and anaerobic digestion took place on 10 October; 2) works carried out at the WTE plants in Terni and San Vittore; 3) works to extend the landfill located in Orvieto.

The financial indebtedness of the Segment stood at € 256.5 million, a decrease of € 52.9 million compared to the previous year. This trend

is essentially due to the lower cash-in from CIP 6 and the pay-out related to the acquisition of equity investments during the year. The first application of IFRS 16, on the other hand, increased the financial debt by € 4.7 million. The change in the scope of consolidation net of the application of IFRS 16 contributed positively for € 0.7 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

During the second half of the year the Segment expanded to include Demap Srl (acquired on 4 July with a 90% stake) and Berg SpA (acquired on 18 October with a 60% stake).

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

Terni (UL1): during the year, the contractual planning for the delivery of pulper waste guaranteed the fuel requirements for the entire period, and the expected performance was affected – both as regards waste pre-treatment activities and the production of electricity – by controlled operation at a reduced load and a shutdown for maintenance earlier than planned, carried out to perform functional checks of the plant aimed at solving critical issues on atmospheric emissions. Starting in April 2019 there was a variable and increasing trend in the quantities of micropollutants in the plant's atmospheric emissions compared to historical data, though still within legal limits. In compliance with authorisation requirements, monitoring was carried out with initial feedback sent to the Control Bodies. After verification the results confirmed compliance with the emission limits, with values in line with historical data.

Paliano (UL2): on 19 June 2019 the results of the characterization activities of the former purification plant area were submitted to the Ministry, with a concurrent request for clearance for demolition. Based on an analysis of the above results, the Ministry requested a communication to the Entities pursuant to art. 245 of Italian Legislative Decree no. 152/06 (CSC breaches by a non-responsible party). On 3 September 2019 the aforesaid communication pursuant to article 245 of Italian Legislative Decree no. 152/06 was sent to the various Entities, as requested by the Ministry.

On 20 December 2019 the Ministry of the Environment sent the results of the sampling carried out by ARPA Lazio, based on which breaches of the CSCs in the soil and groundwater were confirmed for some parameters.

Based on the results of the sampling and analysis carried out by both Acea Ambiente and ARPA Lazio, and based also on what was reiterated by the Ministry of the Environment, the procedures that will make it possible to carry out treatments in situ are being verified. In parallel, sampling and analysis will be carried out on the remaining area of Castellaccio, already defined in the Ministry of the Environment's decree. At present, work has begun on the preparation of the reclamation project.

San Vittore del Lazio (UL3): the waste-to-energy plant is destined for the production of electricity from renewable sources, and in particular from RDF produced by the treatment of urban waste exclusively from the territory of the Lazio Region. During the year the three lines of the plant guaranteed regular operation in terms of operating hours, which were higher than expected. Although production was lower, revenues from electricity benefited from CIP6 tariffs until 13 July 2019.

It should be remembered that the San Vittore plant is now the only waste-to-energy plant on a regional scale and represents a strategic terminal for the waste chain.

By Order of the President of the Lazio Region no. Z00001 of 5 July 2019 concerning "Ordinance pursuant to art. 191 of Italian Legislative Decree no. 152 of 3 April 2006 to ensure the restoration of waste collection in Roma Capitale", in order to ensure the treatment phase of the waste management cycle Acea Ambiente Srl was ordered, among other things, to carry out the following activities with regard to the San Vittore del Lazio waste-to-energy plant, to operate with immediate effect at the maximum authorised treatment capacity on a daily basis, guaranteeing treatment even on public holidays according to the requests that AMA SpA would subsequently formalise, guaranteeing the services established by the BATs for the sector at the minimum established in the various treatment flows.

In addition, the aforementioned Ordinance directly ordered the Company to postpone all scheduled maintenance beyond the 32nd week, taking into account the typical decline in waste production in August.

The effects of the Ordinance therefore led to the postponement of the maintenance of the three lines, initially scheduled for the month of July, to after 12 August. This postponement had a negative impact on the treatment capacity and electricity production of the three lines, with particular reference to Line 1 and Line 3, which suffered the postponement of boiler cleaning and air condensers and, only for Line 3, the replacement of the boiler superheater banks.

The content of Ordinance no. Z00001, set to expire on 30 September 2019, was subsequently renewed with Ordinance no. Z00002 of 30 September 2019 extending the expiry to 15 October 2019.

Finally, it should be noted that, with regard to the San Vittore del Lazio waste-to-energy plant, the new Ordinance no. Z00003 of 27 November 2019 proposed operating with immediate effect at the maximum authorised treatment capacity on a daily basis, guar-

anteeing treatment even on public holidays until 15 January 2020, as requested by AMA SpA.

On 23 May 2019 a new Agreement was signed with the Municipality of San Vittore del Lazio governing the relationship between the company and the Municipality until 31 December 2019, including payment for the so-called externalities arising from the plant's operation, pending the signing of the final Agreement and, in any case, under an extension until 31 December 2021. This Agreement also constitutes a settlement of current disputes between the parties relating to fees and settlements of pending litigation as well as any tacit settlement of charges and collection premiums for the year 2018 and for the first half of 2019.

As a result of the new public tender that went without bids for the service of transport and recovery/disposal of bottom ash, fly ash and PSR produced by the plant, in June 2019 the service was extended by private negotiation with the outgoing company until 31 March 2020.

Following the launch of the VAS procedure for the new Regional Waste Plan on 6 August 2019, Acea Ambiente submitted comments aimed at better configuring the fourth line that the Waste Plan envisages for the San Vittore site.

Orvieto (UL4): during the period, the supply of non-hazardous urban and special waste continued, implementing the recovery and disposal activities according to the terms provided for therein. On 13 September the contract was also awarded for the construction of the front capping of step 9 of the landfill in operation. The hand-over of the works for the start of the site is currently being planned. On 28 August 2019, in order to optimise plant performance in terms of odour, Acea Ambiente submitted to the Umbria Region a non-substantial amendment request pursuant to art. 29-nonies of Italian Legislative Decree no. 152/2006 for the installation of a concentrated aspiration system and subsequent collection of the extracted air to the air treatment system serving the quality waste treatment and composting plant. To date, the Umbria Region has not yet responded to the request.

On 12 November 2019 Acea Ambiente also presented a revision of the Economic and Financial Plan (EFP) to the AURI of Umbria for the revision of the tariffs established in the resolution.

AURI, by Resolution of the Conference of Mayor no. 16 (Resolution no. 16 AURI) of 3 December 2019, approved the tariffs referred to in the aforementioned EFP but just for the years 2019 and 2020, concurrently acknowledging that these tariffs must in any case be considered provisional since the definitive ones will be those that the AURI will determine as a result of the proceedings initiated by Resolution no. 225/2018/R/Rif (approval of the "Integrated Waste Management Service Tariff Method 2018-2021"), and that therefore the tariffs in question would in any case be subject to adjustment.

With a note dated 6 December 2019, AURI then proposed – pending approval of the Area Plan – the planning of urban waste flows to treatment, recovery and disposal plants for the year 2020.

Monterotondo Marittimo (UL5): with reference to the activities of the plant, on 31 December 2017 the delivery of waste was interrupted in order to proceed with revamping and expansion. During the month of May 2018, construction activities began for the construction of the new plant, and during June 2018 the works were handed over definitively.

On 13 September 2019, in compliance with the provisions of the current IEA, a communication was sent to the Tuscany Region for the start of organic waste transfers from 14 October 2019, with a description of the various phases of plant activation, and on 18 September 2019, in response to further requests from ARPAT, the confirmation of the plant start-up calendar was communicated to the Tuscany Region.

The transfer of woody materials began on 22 October 2019, while

on 31 October 2019, in compliance with the IEA's requirement, the certificate of completion of the work necessary for the start of the transfer of organic waste – which began on 4 November 2019 – was submitted. The first parallel with the electricity grid took place on 5 December 2019.

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

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

In order to comply with the requirements of the state concession, it will be necessary to carry out certain projects that will make it necessary to temporarily interrupt waste management in order to avoid interfering with the work. A suspension of deliveries was implemented starting 31/10/2019. Operationally, with the temporary suspension of the deliveries, it is expected that the last composting cycles will end by February 2020 and then the work necessary to comply with the requirements of the Water Opinion can begin, which is expected to take at least 9-10 months.

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

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

By order of the Public Prosecutor's Office of the Republic of Latina of 10 April 2018, the plant was granted provisional use of the facility with authorisation to restart the deliveries in a temporary manner and with strict limitations and prescriptions. The Lazio Region initiated the procedure for the review of the current authorisation, and on 16 January 2019 the first session of the services conference was held, and the second session was held on 28 June 2019.

On 23 July 2019 the Company submitted all the additional/replacement documentation requested. The Lazio Region convened the third session of the services conference on 24 September, subsequently postponed to 1 October.

During the session of the services conference, in order to accelerate the construction of the emission chimneys, i.e. the work proposed voluntarily by Acea Ambiente with which the biofilters will be completely closed and the air conveyed at high into the air through expulsion chimneys, the Lazio Region decided to send a request for a non-substantial change to the IEA.

The design documentation was promptly delivered on 7 October 2019. The Lazio Region authorised the above non-substantial amendment. The Company immediately worked to identify the supplier, both for the executive design and for the construction of the three chimneys.

During the period of reference the plant operated, without prejudice to the seizure with right of use which was otherwise regulated during the current year.

With regard to the new anaerobic digestion plant section, the work was completed on 19 November 2019 with the drafting of the Mechanical Completion. A punch list was drawn up with secondary works still to be completed.

With a note dated 4 December 2019, the Lazio Region sent the acknowledgement of the test certificate. It was therefore possible to

start provisional operation of the plant. Then the sorting/pre-treatment line was started and the digesters were loaded with waste and inoculum according to a loading plan provided by the supplier.

On 20 December 2019, once all technical and administrative activities were completed with the grid operator, the first parallel with the electricity grid was carried out. The plant thus formally commenced operations on that date.

Bioecologia: the company carries out purification, treatment and intermediation of liquid waste in the plants located in Le Biffe, Pianino and ex Comova. During the year, the services provided for in the contracts entered into with the operators of the integrated water service for the purification of urban wastewater in the Municipalities of Chiusi, Buonconvento and Colle di Val d'Elsa were regularly carried out, performing the treatment of special non-hazardous waste at the Chiusi Scalo and Buonconvento plants in compliance with the IEA's requirements. In 2019 no non-conformities regarding tax, environmental and occupational safety issues emerged. The technical management of the plants and the performance of the purification and waste treatment services have been strongly conditioned by the good working order of the machines and equipment, and for this reason maintenance and modernisation works are under way and/or planned for the near future, aimed also at improving the efficiency of the current plant. Works were planned so as not to interrupt the service of reception and treatment of liquid waste. In order to ensure the above, taking into account that only the treatments lines are affected by the works at the Chiusi site, in order to guarantee the continuity of the liquid waste reception service, albeit for volumes lower than the nominal capacity of the plant, it was necessary to set up a temporary mobile department for mechanised grating and desanding of the waste using rented specialised equipment. The mobile plant was then equipped with a deodorisation unit to deal with possible odorous emissions.

With regard to the volumes of waste treated at the Chiusi Scalo plant, the quantity processed during 2019 was 69,258 tonnes. In spite of the restrictions due to the works on the plant, it should be pointed out that during the year the service for the receipt of liquid waste was never interrupted, also ensuring the maintenance of the urban wastewater purification service in the Municipality of Chiusi. Lastly, during the year applications for the review and renewal of integrated environmental authorisations (IEAs) for the Chiusi and Buonconvento plants were prepared and submitted.

Aquaser: mainly operates, as a joint venture, as a waste intermediary with its Customers/Shareholders belonging to the Acea Group. During 2019, the company consolidated its market position by strengthening its transport activities through the acquisition of vehicles and personnel that now allow the management, at least partially, of the corresponding services.

Aquaser currently wholly or partially performs the service of loading, transport and recovery/disposal of waste from water purification for the companies of the Acea Group.

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

Acque Industriali: through the management of specific platforms, provides intermediation and liquid waste treatment services to private companies operating both regionally and nationally, as well as activities collateral to those of the integrated water cycle consisting mainly in the recovery and disposal of biological sludge.

The Company carries designs and builds plants mainly related to

the treatment of wastewater and sludge and waste in general, as well as the treatment of atmospheric emissions, following up with their subsequent ordinary and extraordinary management, as well as carrying out design, direction and execution of works in the field of environmental remediation of polluted sites, mainly in the industrial sector. It also performs research and development in the sectors of reference in partnership with research bodies at both a regional and national level.

Demap: carries out its activity in the field of sorting plastic packaging from urban waste collection. It is one of the 30 or so Selection Centres that have an agreement with the Corepla consortium, established by law pursuant to Italian Legislative Decree 22/97 and now regulated by Italian Legislative Decree 152/06, responsible for achieving the recycling and recovery targets for plastic packaging of consumed products.

Separate collection of plastic packaging is regulated at a national level by a framework agreement between Anci and Conai and by the technical annexes concluded between Anci and the individual value chain consortia which, in the case of plastic packaging, provide

that collection may be transferred to the sorting centre either selectively (mono-material collection) or jointly (multi-material collection). Demap carries out its business in compliance with current regulations and is authorised under Italian Legislative Decree 152/06 with procedure issued by the Province of Turin no. 133-25027/2010 of 23 June 2010.

In 2019 the Company regularly performed the services envisaged in the contracts stipulated with Corepla and with the multi-material suppliers, with which the company has a private business relationship. In 2019 a total of 60,804 tonnes of incoming goods were processed, an increase of approximately 2.7% compared to the previous year.

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

In 2019 the plant confirmed its Structural Solidity by almost completely processing the quantity authorised, i.e. 143,000 tonnes per year of liquid waste.

COMMERCIAL AND TRADING OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2019	31/12/2018	Change	% Change
Electrical Energy sold – Free	GWh	4,235	3,685	550	14.9%
Electrical Energy sold – Protected	GWh	2,219	2,370	(151)	(6.4)%
Electricity – Free market customers (P.O.D.)	N/000	399	331	68	20.5%
Electrical Energy – no. Protected Market Customers (P.O.D.)	N/000	786	846	(60)	(7.0)%
Gas Sold	Msm ³	140	128	12	8.9%
Gas – no. Free Market Customers	N/000	192	173	19	11.2%

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	1,619.3	1,693.2	(73.9)	(4.4)%
Costs	1,550.1	1,617.1	(67.0)	(4.1)%
EBITDA	69.1	76.1	(7.0)	(9.2)%
Operating profit/(loss) (EBIT)	18.3	3.7	14.7	n.s.
Average headcount	470	464	5	1.1%
Capex	42.5	24.6	17.9	72.6%
Net financial debt	(53.2)	(23.7)	(29.5)	124.2%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Commercial and Trading Segment	69.1	76.1	(7.0)	(9.2)%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	6.6%	8.2%	(1.5 p.p.)	

The Segment, responsible for the management and development of electricity and gas sales and related customer relationship activities as well as the Group's energy management policies, closed 2019 with an EBITDA of € 69.1 million, down compared to 2018 by € 7.0 million. The reduction is mainly attributable to **Acea Energia** (- € 7.3 million), only partially mitigated by the improved margin of **Umbria Energy** (+ € 0.5 million) and **Acea8Cento** (+ € 0.2 million).

With regard to the effects on the primary gross margin, the reduction recorded by **Acea Energia** is mainly due to the RCV review and the value recognised for the mechanism for offsetting arrears provided for in Resolution 706/2018 ARERA.

In detail, the energy margin of the **protected market** amounted to € 51.6 million and showed a reduction of € 17.9 million compared to the previous year, partly mitigated by the **free market** margin

which amounted to € 47.6 million and showed an increase of € 0.7 million. The reduction in the margin of the **protected market** is due mainly to lower tariffs and a revision of the compensation mechanism for arrears, while the margin of the **free market** is affected mainly by higher unit sales. The margin of the **gas market**, on the other hand, was € 12.2 million, down by € 0.3 million compared to 31 December 2018, mainly due to the lower margins achieved.

Finally, the energy margin relating to the optimisation of energy flows, amounting to € 6.5 million, is in line with the previous year. The first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower costs for rentals of € 0.3 million.

The operating result increased by € 14.7 million, an improvement of € 21.7 million over EBITDA, mainly due to lower write-downs on receivables for € 11.0 million primarily as a result of the improved collections, lower provisions for risks for € 8.1 million due to the provisions made in the previous year for energy items (€ 7.7 million) and lower amortisation and depreciation for € 2.6 million due to the revaluation of residual costs for IT projects, including the new CRM. With reference to the workforce, the average number at 31 December 2019 stood at 470 employees; this number was up compared to the previous year by 5 employees. Primary contributors to this change are **Acea Energia** (+ 15 units) compensated by **Acea8cento** (- 10 units).

Investments in the Segment amounted to € 42.5 million, an increase of € 17.9 million, compared to the previous year, mainly attributable to **Acea Energia** for investments related to the acquisition of new customers in accordance with IFRS 15 (€ 17.7 million), for IT implementation projects (€ 14.1 million) and for cloud licences that form the basis of the new Customer Relationship Management (€ 9.9 million).

Net financial debt at 31 December 2019 stood at € 53.2 million, an improvement of € 29.5 million compared to 31 December 2018.

This trend derives from the dynamics of operating cash flow, influenced by the improvement in collection performance. The first application of IFRS 16 resulted in a worsening of financial debt by € 0.6 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

Energy Management

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

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

In 2019 Acea Energia purchased electricity from the market for a total of 8,673 GWh, of which 6,751 GWh through bilateral contracts and 1,921 GWh through Borsa, for resale to end customers of the free market and for the optimisation of energy flows and the purchasing portfolio.

Electricity distribution

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

In 2019, Acea Energia sold electricity on the standard market for a total of 2,197 GWh, with a 6.3% reduction on a trend basis. The number of withdrawal points totalled 774,823 (832,719 at 31 December 2018). The sale of electricity on the free market amounted to 3,826 GWh for Acea Energia and 409 GWh for Umbria Energy, for a total of 4,235 GWh, with an increase compared to last year of 14.9%, primarily related to the B2B segment.

In addition, Acea Energia and the other sales companies of the Group sold 139.8 million Sm³ of gas to end customers and wholesalers which involved 192,107 re-delivery points, while at 31 December 2018 they were 172,755.

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

Proceeding PS9815 of the AGCM antitrust authority for unsolicited activations: the Court of Justice suspended the discussion of the judgement in question, pending the definition of the preliminary questions raised by the Council of State in a different ruling, with reference to the application of the Directive on unfair commercial practices in the electronic communications sector.

The Court of Justice has not accepted the request of the Lazio Regional Administrative Court to implement an “accelerated” procedure for the settlement of the preliminary question.

On 15 May 2019 the EU Court of Justice ruled on the preliminary ruling of the Lazio Regional Administrative Court, stating that: 1) there is no conflict between the directives on unfair commercial practices and on remote contracts (29/2005 and 83/2011) and the sectoral directives (72/2009 and 73/2009); 2) in the energy sector it is also possible to apply the general discipline for the protection of consumers (with consequent competence of the AGCM, pursuant to art. 27, paragraph 1bis, of the Consumer Code). In accordance with Directives 2009/72 and 2009/73, it follows that ARERA is not competent to sanction such conduct.

AGCM proceeding PS9354 for unfair commercial practices: on 26 November 2018 the Authority sent a communication of compliance with the measure adopted on 13 June 2016, also requesting confirmation of the entry into operation of the function relating to the automatic blocking of the collection of consumption for which the five-year prescription had been reached for free-market customers. On 17 December 2018, Acea Energia verified the above communication, representing that the function went into operation on 11 December 2018.

AGCM proceeding A513 for abuse of a dominant position: on 8 January 2019 AGCM notified the company of the concluding provision of Proceeding A/513. In this order, the Authority ruled that Acea SpA, Acea Energia SpA and areti SpA had committed an abuse of a dominant position – qualified as very serious and of duration quantified in 3 years and 9 months – consisting in the adoption of a broad exclusionary strategy realised through the illegitimate use of a series of prerogatives possessed solely by virtue of its position as an integrated operator in distribution, in order to compete with its competitors in the acquisition of electricity sales contracts in free market conditions.

In view of the gravity and duration of the infringement, the Authority ordered Acea SpA, Acea Energia SpA and areti SpA to pay an overall pecuniary administrative fine of € 16,199,879.09.

In consideration of the fact that in the Sanctioning Measure the Authority considered the contested conduct to be part of a strategic plan defined by the parent company Acea SpA as well as the fact that Acea SpA exercises management and coordination over both Acea Energia SpA and areti SpA, and finally the fact that the Authority has jointly and severally imposed on Acea SpA, Acea Energia SpA and areti SpA said pecuniary administrative sanction

without quantifying the amount thereof for each company, the entire amount of said sanction was recorded in the financial statements of the Parent Company Acea SpA, which has relieved the company by waiving recourse to shares or claims.

On 8 March 2009 Acea Energia filed an appeal with the Regional Administrative Court of Lazio and on 22 March 2009 it filed an expert's report with the court containing the consent reports it received concerning the customer base.

On 27 March 2019, the Council Chamber was held to discuss the application for interim measures, and at that meeting it was asked for the merits of the application for interim measures to be combined with those of the application for interim measures and, on 28 March 2019, filed a request for relief in order to ask the Regional Administrative Court to set up a hearing on the merits as soon as possible.

On 10 May 2019 the AGCM sent a request for information on compliance with measure no. 27496 of 20 December 2018, with particular reference to the issue relating to the collection of privacy consent for commercial purposes.

On 20 May 2019 Acea Energia verified the above communication, noting that the lists of SMT users who have directly given consent to Acea Energia for commercial purposes on the free market for the sale of electricity are not used and that the Company continues to collect the aforementioned consent when stipulating and managing the supply contract.

On 13 June 2019, the Authority expressed the need to set up a hearing with the Companies themselves in order to obtain clarifications regarding the decision to collect privacy consents separately (for the companies of the Acea Group and for third parties).

On 3 July 2019, a hearing was held at the offices of the Authority with representatives of the companies, during which it was reiterated, as already represented in the compliance report and in the reply to the request for information of 10 May 2019, that the consent given by protected users are not used for marketing purposes. A brief was filed on 21 September 2019 in response to the Authority's defence. It insisted that the appeal be accepted and the contested measures voided, or, in the alternative, partial annulment and elimination, or in any event reduction of the fine imposed.

Then, on 2 October 2019, before the Lazio Regional Administrative Court, a hearing was held during which the case was discussed and judgement was deferred.

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

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

AGCM proceeding PS9974 for unfair business practices: The Authority decided to dismiss the requests for action because the activities put in place by the company, as represented in its reply sent to the authority on 2 July 2018, are considered sufficient to eliminate any commercial improprieties of the type under investigation.

Determination DSAI/5/2020/EEL: initiation of two sanction proceedings for violations of the regulation of the economic items relating to electricity destined for Vatican City State: Pursuant to resolution 58/2019/E/eel, on 20 March 2019 the Authority initiated a fact-finding investigation against Acea Energia with the aim of acquiring information and useful data concerning the manage-

ment of the financial items relating to electricity destined for Vatican City State (hereinafter VCS).

In accordance with this resolution and pending the conclusion of the aforementioned investigation, the Authority has specified to the CSEA that it should proceed on a transitional basis and subject to adjustment to equalise the costs of purchasing and dispatching electricity for protected customers as incurred by Acea Energia in 2017. Conversely, on 13 November 2019, pending the conclusion of the same investigation, the Authority asked the CSEA to suspend – on a temporary basis and subject to adjustment – any disbursements relating to the equalisation of the costs incurred by Acea Energia for 2018 for the purchase and dispatching of electricity intended for protected customers.

With Resolution no. 491/2019/E/eel the Authority closed the preliminary investigation by instructing Acea Energia and areti on the actions to be taken by the end of 2019. On 20 December 2019, Acea Energia informed the Authority that it had complied with the requirements.

In particular, as part of the investigation it emerged that Acea Energia applied the dispatching fees and the tariff components to cover general system charges to the users in VCS. However, ARERA specified that these components are not applied to foreign users. "As a result, Acea Energia was charged more for a quantity of electricity equal to that transferred to VCS" (see page 13 of Annex A to Resolution 491/2019/E/eel).

On the other hand, this happened because Acea Energia had not associated the electricity actually destined for the VCS with the export dispatching point, which was instead taken from another dispatching point referred to in the contract for withdrawal dispatching in force between Terna and Acea Energia used for customers supplied on the free market.

This conduct ceased as of 1 December 2019 as Acea Energia associated the corresponding withdrawal programmes to the export dispatching point at the electricity border with VCS.

Since at the same time the electricity withdrawn from the export dispatching point corresponding to the VCS Virtual Consumption Unit was destined to Italian protected customers, the Authority found that in the period 2009-2018 Acea Energia did not purchase from the Single Buyer the entire quantity of electricity destined for the protected service, the protected service being in part served from the export dispatching point corresponding to the VCS Virtual Consumption Unit. This conduct ceased on 1 January 2019.

Therefore resolution 491/2019/E/eel mandated:

- Terna, the relevant distribution companies and CSEA to recalculate the charges for the withdrawals by VCS by applying the criteria highlighted in the preliminary findings attached to the same resolution;
- the Director of the Sanctions and Commitments Department of the Authority to produce the documents resulting from the evidence found.

As a result of this, two sanctioning proceedings were initiated against Acea Energia and areti.

Pursuant to resolution 243/2012/E/com, following the postponements communicated by ARERA Acea Energia must submit its commitments by 9 June 2020. According to the aforementioned resolution, the approval of the commitments closes the sanction procedure without establishing an infringement.

In the unlikely event that the Authority intends not to approve the commitments and continue with the penalty procedure, based on the information available today the Company does not see any economic impact since it is believed that any penalty for the conduct identified in the aforementioned investigation would be offset by the amount owed by Acea Energia to the system by virtue of the application of dispatching fees and tariff components to cover general system costs. This receivable is expressly recognised by ARERA in Appendix A to resolution 491/2019/E/eel, as mentioned above.

OVERSEAS OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2019	31/12/2018	Change	% Change
Water Volumes	Mm ³	43	43	0	0.1%

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	48.5	38.6	9.9	25.6%
Costs	31.5	23.8	7.8	32.6%
EBITDA	16.9	14.8	2.1	14.3%
Operating profit/(loss) (EBIT)	7.7	7.8	(0.1)	(1.8)%
Average headcount	814	781	33	4.2%
Capex	7.0	6.6	0.4	6.6%
Net financial debt	(4.5)	4.1	(8.7)	n.s.

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Overseas Segment	16.9	14.8	2.1	14.3%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	1.6%	1.6%	0.0 p.p.	

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

- Aguas de San Pedro (Honduras), 60.65% owned by the Group as of October 2016, when it was consolidated using the line-by-line method. The Company serves its customers in San Pedro Sula;
- Acea Dominicana (Dominican Republic) wholly owned by the Group, provides the service to the local Municipality known as CAASD (Corporation Aque ducto Alcantariado Santo Domingo);
- AguaAzul Bogotá (Colombia) of which the Group holds 51% is consolidated on the basis of the equity method with effect from the 2016 financial statements as a result of a change in the composition of the Board of Directors;
- Consorcio Agua Azul (Peru) is controlled by the Group which owns 25.5% and provides the water and discharge service in the city of Lima. It should be noted that on 13 January 2020 additional shares in the company were acquired from the outgoing shareholder Impregilo International Infrastructures N.V., increasing the Group's shareholding from 25.5% to 44.0% (+ 18.5%). Moreover, by virtue of the amendment of the shareholders' agreements, as of the same date the Group acquired control of the company;
- Acea Perú, wholly owned by Acea International (established on 28 June 2018), not yet operational. This company was established with the specific intent to manage the aqueduct service in the city of Lima;
- Consorcio Servicio Sur controlled by Acea International (50%), Acea Ato 2 (1%) and by local partners Conhydra, Valio and India (total 49%). The Consorcio was established on 5

July 2018 with the specific aim of managing the corrective maintenance service for the drinking water and sewerage systems of the Directorate of Services Sur of Lima (Peru).

This Segment closed 2019 with an EBITDA of € 16.9 million, an increase of € 2.1 million compared to the previous year, mainly from **Agua de San Pedro** (+ € 1.9 million). The first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower costs for rentals for € 0.2 million.

The average headcount at 31 December 2019 stood at 814 units and was up by 33 compared to the previous year, mainly due to **Acea Perú** (+ 38 units).

Investments in 2019 amounted to € 7.0 million, up by € 0.4 million compared to 2018, and were mainly attributable to **Agua de San Pedro** for the expansion and extraordinary maintenance of the water and sewerage network in the areas managed.

Net debt at 31 December 2019 amounted to - € 4.5 million, an improvement compared to 2018 of € 8.7 million. The changes are mainly attributable to **Acea International** (€ 9.4 million) for payments received from the Parent Company to finance the purchase of additional shares in **Consorcio Agua Azul**. This transaction was completed on 13 January 2020 through the purchase of an additional stake from the outgoing shareholder Impregilo International Infrastructures N.V., with which the Group increased its stake in the company from 25.5% to 44.0% (+ 18.5%). Finally, the first application of IFRS 16 contributed to the increase of financial debt by € 0.6 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

No significant events are reported during the period observed.

WATER OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data*	U.M.	31/12/2019	31/12/2018	Change	% Change
Water Volumes*	Mm ³	538	440	98	22.3%
Electrical Energy Consumed*	GWh	663	440	223	50.8%
Disposed Sludge**	kTon	134	96	38	39.4%
Gas Delivered**	m ³	60,641,789	0	60,641,789	n.s.
Gas no. of active users**	no.	62,068	0	62,068	n.s.
Net realised**	Km	325	0	325	n.s.
White Certificates**	no.	7,974	0	7,974	n.s.

* The values refer to fully consolidated companies (including Gori and AdF).

** The values refer to the newly consolidated Pescara Distribuzione Gas.

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	1,049.2	841.0	208.2	24.8%
Costs	544.3	408.0	136.2	33.4%
EBITDA	505.0	433.0	72.0	16.6%
Operating profit/(loss) (EBIT)	252.2	221.0	31.2	14.1%
Average headcount	3,094	2,551	543	21.3%
Capex	380.1	329.7	50.4	15.3%
Net financial debt	1,286.5	1,039.0	247.4	23.8%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Water Segment	505.0	433.0	72.0	16.6%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	48.4%	46.4%	2.1 p.p.	

EBITDA for the Segment stood at € 505.0 million at 31 December 2019, an increase of € 72.0 million compared to 2018 (+ 16.6%). The increase is mainly due to the line-by-line consolidation of Gori (as from 8 November 2018) and AdF (whose line-by-line consolidation began from 7 October 2019), previously valued using the equity method, which accounted for € 53.9 million and € 13.5

million respectively. Also contributing to the increase was the consolidation of the company Pescara Distribuzione Gas (acquired in March 2019) for € 1.7 million. There were also lower costs for rentals following the first-time application of IFRS 16 for € 3.0 million, and finally a decrease in the contribution to EBITDA of water companies valued at net equity of € 3.7 million, as shown below:

€ million	31/12/2019	31/12/2018	Change	% Change
Publiacqua	16.3	15.8	0.5	3.1%
Acque Group	12.3	13.9	(1.6)	(11.3)%
Fiora	3.7	4.6	(1.0)	(21.0)%
Umbra Acque	2.1	1.1	1.0	86.7%
Gori	0.0	3.0	(3.0)	(100.0)%
Nuove Acque and Intesa Aretina	0.7	0.5	0.2	47.9%
Geal	1.2	1.0	0.2	20.4%
Total	36.2	39.9	(3.7)	(9.2)%

The quantification of revenues for the year deriving from the integrated water service is valued on the basis of the determinations made by the area governing bodies (AGBs) and ARERA. The item includes the estimate of the tariff adjustments relating to the so-called carry-over items for the year that will be invoiced as from 2021. In addition, starting from the second *regulatory* period the Authority has put in place incentive measures that provide the Managers with rewards related to “contractual quality” and “technical quality” based on certain objectives and quality standards. It should therefore be noted that the amount of € 35.8 million (+ € 2.2 million), which represents the best estimate of the 2019 commercial quality award, and penalties for commercial quality and technical quality amounting to a total of € 0.5 million have been recorded among the revenues of **Acea Ato 2**. The following two tables summarise the status of the procedures for approving tariff proposals and the other revenues from the IWS, broken down by company and component.

The operating result was mainly affected by the increase in amortisation and depreciation (+ € 28.0 million), attributable to the full consolidation of **Gori** and **AdF** for € 25.9 million and € 9.3 million respectively.

The average workforce as at 31 December 2019 increased by 543 employees, mainly due to the change in the scope of consolidation related to **AdF** (+ 394 employees) and **Pescara Distribuzione Gas** (+ 12 employees). **Gori** also contributed to the change (+ 117 employees) with regard to the transfer of the “Regional Works” which includes the redeployment and efficient use of the related personnel in IWS activities.

Investments in the Segment were € 380.1 million and were mainly attributable to **Acea Ato 2** for € 277.8 million and € 33.2 million

to **Acea Ato 5**, while the consolidation of **Gori** and **AdF** contributed € 43.8 million and € 11.1 million respectively. The main investments in the period include those relating to the work carried out for the reclamation and expansion of the water and sewage pipes of the various Municipalities, the extraordinary maintenance of the water centres, the interventions on the treatment plants, works to reduce water leaks and improve relationships with users and the local region and on IT applications.

Net debt of the Segment at 31 December 2019 was € 1,286.5 million, a decrease of € 247.4 million compared to the previous year. This change is mainly due to: 1) **Acea Ato 2** for the lower liquidity resulting from the investments made during the year; 2) to the consolidation of **AdF** and **Pescara Distribuzione Gas** which contribute to a worsening of financial indebtedness for € 89.6 million and € 7.1 million respectively, partly offset by **Gori** which contributes to the improvement of the financial position for € 12.2 million. Finally, the first application of IFRS 16 contributed to the worsening of financial debt of the Segment by € 18.2 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

Lazio – Campania area

Acea Ato 2

The Integrated Water Service in Ato 2 Central Lazio – Rome started on 1 January 2003. The management of the Ato Municipalities took place gradually and the Municipalities currently managed are 79 compared to 112 of the entire Ato. The following table shows the overall situation in the territory managed, which has not changed compared to the previous year.

Acquisition situation	no. of Municipalities
Municipalities that declared they do not wish to be part of the Integrated Water Service*	7
Municipalities with Protected Entity	1
Municipalities fully acquired into the Integrated Water Service	79
Municipalities partially acquired, for which Acea Ato 2 provides one or more services	17
Municipalities to be acquired	8

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

The Company provides the full range of **drinking water distribution** services (collection, abstraction, retail and wholesale distribution). Water is drawn from springs on the basis of long-term concessions. Water sources supply approximately 3,900,000 residents in Rome and Fiumicino and in more than 60 Municipalities in the Lazio region, via five aqueducts and a system of pressurised pipes. Three further sources of supply provide non-drinking water used in the sprinkler system of Rome.

As at 31 December 2019, Acea Ato 2 manages a total of approximately 6,842 kilometres of sewerage network, 709 sewerage pumping stations – of which 220 in the Roma Capitale area – and a total of 166 waste treatment plants – 32 of which in the Roma Capitale area – for a total quantity of treated water equal to 584 Mmc (data referring to managed treatment plants only).

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

As of 31 December 2019, the six main purification plants had treated a volume of water equal to about 514 Mmc with a slight increase (equal to 5%) caused by the rainfall, compared to what was treated in 2018 (490 Mmc).

Following the regulatory changes of 2019, the Company implemented and continued all the activities that began in 2018.

Specifically, taking into account that some solids produced by the

managed plants do not comply with art. 41 of Italian Decree Law 109/2018 converted by Italian Law 130/2018, this company has continued with the transport of liquids within the authorised plants (as per art.110) and has started the disposal of solids through the stipulation of international contracts.

In February, with Determination R.U. 421 of 8 February 2019, the Metropolitan City of Rome, exceeding the ordinance issued in August 2018, authorised the treatment plant in East Rome to receive liquid waste (as per art.110).

With regard to analytical certificates for sludge and waste, in 2019 there was a slight increase in the number of analyses carried out by Acea Elaborasi (external certified laboratory) compared to the average for the same period in previous years.

With reference to the problem of seizures of wastewater treatment plants, note that the plants in Rome Nord and Botticelli were released on 13 May 2019 (Rome Nord) and 20 May 2019 (Botticelli) respectively.

As far as the Colubro treatment plant is concerned, following a request made by the Company, the Judicial Authority granted temporary release from seizure of the aforementioned plant in order to get it up and running and to carry out the consequent verification of the purification process.

With regard to the Carchitti treatment plant, the temporary release from seizure granted by the Authority remains in effect.

Acea Ato 5

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

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

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

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

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

With regard to 2019, the digitisation of the networks of the managed area continued, with the inclusion of data in the GIS – Geographic Information System. According to the 2019-2022 plan for significant activities, as of 31/12/2019 5,496 km of the water supply network had been digitised (1,205 km of supply network and 4,291 km of distribution network).

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

Since Acea Ato 5 has so far failed to initiate compliance proceedings with a view to verifying the voluntary compliance of the Municipality, which is suitable for preventing the possible appointment of an acting commissioner as has already happened in similar cases, a series of meetings have taken place at the Operational Technical Secretariat of AATO 5 Lazio Meridionale – Frosinone aimed at seeking an amicable settlement of the dispute and at initiating the preparatory activities for the transfer to Acea Ato 5 of the management of the IWS in the Municipality of Paliano. In this perspective, the Parties – with minutes of 26 November 2018 and 29 November 2018 – performed the update of the previous survey of networks and existing plants in the Municipality of Paliano, necessary for the management of the IWS.

To date, the parties are sharing the IWS handover report, which should also result in the waiver of pending litigation between them. With regard to the Municipality of Atina, whose management of the IWS has been transferred to Acea Ato 5 as of 19 April 2018, it should be noted that Municipal Council Resolution no. 14 of 17 April 2019, by which the Municipality resolved to “establish the sub/optimal territorial area called Atina Territorial Area 1, with ref-

erence to optimal territorial area no. 5, for the continuity of the autonomous and direct management of the water service pursuant to art. 147, paragraph 2 bis of Italian Legislative Decree no. 152/2006, declaring the Integrated Water Service “local public service without economic importance”.

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

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

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

Lazio Administrative Court appeal on termination of the Management Agreement

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

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

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

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

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

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

Following the hearing on 17 July 2012, the Judge – in an Order filed on 24 July – suspended the temporary enforcement of the injunction order, and postponed to a later date the discussion of the merits of the issue.

The judge also rejected the request for an order of payment of the concession fees submitted by the AATO. During the hearing on 21 November 2014, the judge withdrew the reservations on the motions for admission of evidence filed by the parties and fixed the hearing for the final statements on 15 November 2016. During the hearing, the judge granted the terms for the conclusions and replies and deferred the decision on the case. In sentence 304/2017, published on 28 February 2017, the civil judge revoked the injunc-

tion decree issued in 2012, rejected the subordinate re-conventional request by Acea Ato 5 and ordered the deferral of the case in the preliminary proceedings concerning the re-conventional request by the AATO as regards the payment of the concession fees. At the hearing of 17 November 2017, the Judge, having acknowledged the counterparty request, postponed the hearing to 27 February 2018. At the outcome of the aforementioned hearing, the new Judge who took charge of the case, having noted the discrepancies that emerged in the respective accounts of Acea Ato 5 and AATO 5, granted a postponement to 4 May 2018, inviting the parties to clarify the reasons for such discrepancies and specifying that if they could not the court would appoint an expert to do so. At this hearing there was a further postponement until 21 September 2018.

At this meeting, in light of the Conciliation Panel established on 11 September 2018 with AATO 5 – pursuant to art. 36 of the Management Agreement to which the question concerning the determination of concession fees was also referred, among others – the Parties asked the judge for a postponement, the hearing being scheduled for 15 February 2019, then postponed to 17 September 2019.

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

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

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

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

The validity of the appeal and the decision not to cancel the receivable were further confirmed by the conclusions of the Conciliation Board, established by the Area Authority and the Operator, in accordance with the provisions of article 36 of the Management Agreement, in order to reach a settlement of the various disputes pending between the parties.

In its Conciliation Proposal sent to the parties on 27 November 2019 and currently being examined by the AATO 5 Conference of Mayors, the Conciliation Board has in fact, among other things:

- ascertained the existence of significant differences between the concession fees approved in the various tariff arrangements and the amounts to be paid to the Municipalities. In the opinion of the Board, the actual existence of such differences leads one to believe that Resolution no. 4/2007 of the Area Authority was based on credible elements, also found afterwards, where it identified the “savings on the concession fees to be paid to the Municipalities” (which could constitute the financial funding to pay a loan stipulated by the Area Authority) as the financial coverage for the payment to the Operator of the sums envisaged in the settlement. This conclusion, highlighting the plausibility of the sources of coverage identi-

fied by the Area Authority to finance the settlement, confirms the validity of the appeal filed by the Company against sentence no. 304/2017, by which the Court of Frosinone declared the nullity of Resolution no. 4/2007 of the Area Authority and of the settlement agreement precisely because of the alleged failure to identify the related financial coverage in violation of the disclosure regulations, since the reference to “unspecified savings on the concession fees to be paid to Municipalities” was not considered adequate and sufficient;

- considered that there are valid and grounded reasons to grant the Operator’s request for recognition of higher operating costs incurred in the three-year period 2003-2005 to the reduced extent agreed to by the parties in the settlement, thus confirming the existence of the corresponding receivable in the Company’s financial statements.

Updating of the concession fee

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

- the aforementioned Resolution of the Conference of Mayors has made no provision for the difference;
- in compliance with the regulations in force, the quantification of the concession fees is the exclusive responsibility of the Area Authority and therefore any recognition of the difference (with consequent extinction of the relative obligation) can only take place following the revision of the tariffs for the years 2013-2017 and the relative Economic and Financial Plan (EFP) by the Area Authority;
- when reviewing the tariffs for the two-year period 2018-2019 and the related EFP, the Area Authority implemented the reduction in concession fees only as from 2018 (with a substantial reduction of about € 1,658 thousand in 2018), leaving those for the 2013-2017 years unchanged;
- for the 2013 financial year, the AGB had issued invoices to the Company for the difference between the concession fee resulting from the relevant tariff and the charges for the loans that the Operator had paid to the Municipalities based on the aforementioned Resolution;
- the exact quantification of the concession fees for the aforementioned years and the assessment of their reallocation and treatment for tariff purposes was an open issue for both parties, so much so that it was referred to the Conciliation Board established between AATO 5 and the Operator, in accordance with the provisions of art. 36 of the Agreement.

It should also be noted that since it is a so-called “pass-through cost” in the tariff definition, i.e. charged as a tariff without any economic return for the Operator (a sort of collection on behalf of third parties), its effect is substantially neutral in the Operator’s financial statements: it is recorded as revenue and at the same time and in equal measure as a cost. For this reason, even if the Company mistakenly did not fulfil its obligation to pay the difference and recognised out-of-period income as an adjustment to the amount due for the concession fee, it would have had to recognise out-of-period income of the same amount following a reduction in the adjustments for the years 2013-2017, with clear economic effects that are insignificant from both a statutory and fiscal point of view.

It should be noted that on 27 November 2019 the aforementioned Conciliation Board submitted to the Company and to the Area Authority a specific Conciliation Proposal, with an attached deed still to be signed. In these documents, the Conciliation Board has, among other things, put forward a proposal to reduce the tariff adjustments claimed by the Operator by the difference of € 12,798 thousand between the concession fees approved in the various tariff arrangements for the years 2013-2017 and the amounts to be paid directly to the Municipalities on the basis of Resolution no. 1 of 26 March 2018. This proposal for allocation to offset existing receivables confirms the Operator’s indebtedness of this difference, corroborating the Company’s decision not to release the related liabilities in its financial statements.

Conciliation Board with AATO 5

With regard to **relations with AATO 5**, the Company has tried to reach a settlement of the various disputes pending against the Area Authority, convinced of the need to put an end to a very long season of clear conflict between the Granting Body and the Licensee Company, culminating with the resolution passed by the Conference of Mayors of Ato 5 aimed at the termination of the Management Agreement that forced the Company to appeal to the Latina Regional Administrative Court that annulled the above resolution.

In this context, in recent years and especially during 2018 an enormous effort has been made – including organisational efforts – to reconstruct the relations between the Company, the Area Authority and the individual Municipal Administrations of Ato 5.

Similarly, the possibility of establishing a Conciliation Board with the Area Authority has therefore become concrete, with the aim of settling the main issues still in dispute by the parties.

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

- case pending before the Court of Frosinone, docket no. 1598/2012 on concession fees 2006-2011. This question consists in ascertaining that the concession fees for the period 2006-2011 have been paid in full: while Acea Ato 5 claims to have paid the entire amount due, the Area Authority claims that it is still owed more (€ 1,751,437.89). The dispute is the subject of a case pending before the Court of Frosinone;
- verification of the actual use of the sums paid by Acea Ato 5 to the Area Authority as a fee pursuant to art. 13 of the Integrated Water Service Management Agreement. In the meantime this matter has been substantially settled by the parties, given the recalculation of the concession fee;
- settlement of the dispute related to the 2007 transaction, which is the subject of judgement no. 304/2017 of the Court of Frosinone, appealed by Acea Ato 5 to the Rome Court of Appeal (docket no. 6227/2017). The first hearing of the appeal proceedings is scheduled for 20 November 2020, and Acea Ato 5 – even though it considered the above sentence to be incorrect and therefore appealed it – nevertheless pointed out that Acea Ato 5 did not in any way deny the existence of the receivable claimed by the Manager and therefore claims

the right to recover the receivable itself, also fearing further initiatives to protect the interests of the Company. The Operational Technical Secretariat has expressed its willingness to ask the Conciliation Board to study the Manager’s claim, even from a legal point of view;

- damage suffered by Acea Ato 5 as a result of delays in the delivery of services by the Municipalities of Cassino, Atina and Paliano;
- handover of the ASI and Cosilam plants;
- penalties applied by AATO 5 against the Manager and annulled by the Latina Administrative Court by judgement no. 638/2017;
- interest for late payment of concession fees by Acea Ato 5;
- reconstruction of the 2012/2018 concession fees and request for the Operator’s repayment plan to the Area Authority for the debt positions relating to the concession fee.

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

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

- it shall be called upon to verify the possibility of an attempt at an amicable settlement between the Parties with respect to all and/or even some of the above matters;
- after an extensive investigation that must concern all the individual points under examination, the Conciliation Board must present the Parties with a proposal for conciliation;
- the Parties will be free to accept or reject the conciliation proposal presented by the Conciliation Board, i.e. to accept it in full or even only in part, without any obligation to give their reasons;
- therefore, the appointed Board will have the task of carrying out a preliminary activity on behalf of both Parties with respect to the matters entrusted to it, without prejudice to subsequent decisions that will be left to the individual Parties;
- the conciliation proposal presented by the Board and, more generally, the report and/or deeds drawn up by the Board may not be used in judicial proceedings by one Party against the other as a possible recognition of its own reasons and/or those of others;
- the appointed Board does not act as an Arbitration Board.

The Parties also shared the criteria for the appointment of the Board and, in particular, each Party appointed its own member.

The Chairman of the Conciliation Board was selected by the Prefect of Frosinone, at the joint request of the Parties, and was jointly appointed on 16 May 2019. The Board officially took office on 27 May 2019, thus starting the 120-day period within which it had to arrive at a proposal for an amicable settlement of the issues submitted for its assessment.

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

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

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

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

On 4 February 2020, the Company informed the OTS of AATO 5 that on 19 December 2019 the BoD approved the Conciliation

Proposal formulated by the Conciliation Board and the draft of the Conciliation Deed between AATO 5 and Acea Ato 5 and that, moreover, the Chairman was given a mandate to sign the Conciliation Deed, confirming in particular the commitment to carry out interventions for a total amount of € 4,500 thousand without any tariff recognition, in conciliation and for the reasons set out above. As of today the Conference of Mayors has not yet been scheduled for final approval of the two documents.

However, in light of the conduct throughout the conciliation process, and in particular during the final meeting held on 11 November 2019 in which the Conciliation Board explained the Conciliation Proposal to the legal representatives of the parties and as the Company's BoD had already approved the related Conciliation Deed on 19 December 2019 and then communicated this decision to AATO 5 on 4 February 2020, the Company believed that as at 31 December 2019 an implicit obligation had already arisen for the commitments envisaged in the Conciliation Deed, and in particular for the aforementioned commitment to carry out interventions in the territory without any tariff recognition, having already created a valid expectation in the AATO 5 Area Authority and in the Municipalities of the territory that the Company intends to honour these commitments and bear the related charges. Based on the information available as at 31 December 2019, considering the approval of the Conciliation Deed by the Conference of Mayors to be probable and consequently also considering the related implied obligation to be likely, at the end of the year the Company decided to recognise a provision of this amount.

Criminal proceeding no. 3910/18

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

ARERA sanctioning measure concerning IWS tariff regulation

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

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

On 3 October 2019 the Company filed an appeal with the Lombardy Regional Administrative Court against the aforesaid measure to have it thrown out, and to have the amount of the fine reviewed. Moreover, following the submission of the appeal, the Company

sent a specific request to the Authority asking for details of the timing of the approval procedures for the 2016-2019 tariffs, as well as the 2018-2019 update.

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

AGCM sanctioning measure – Proceeding PS9918

On 5 July 2018, in implementation of the resolution adopted by the Italian Competition Authority on 27 June 2018, an audit took place at the registered office of the Company following the initiation of the proceeding pursuant to art. 27, para. 3 of Italian Legislative Decree no. 206 of 2005, as well as pursuant to art. 6 of the 'Regulation on preliminary investigations concerning misleading and comparative advertising, unfair trade practices, violations of consumer rights in contracts, unfair terms' (hereinafter Regulation). The proceedings were opened in response to reports made to the Authority by the Consumer Associations CO.DI.CI. and Federconsumatori Frosinone regarding alleged incorrect and aggressive behaviour towards consumers and small businesses by Acea Ato 5 SpA in the period January 2015-June 2018.

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

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

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

On 4 July 2019, the Authority notified the Company of the sanctioning measure with a pecuniary administrative sanction totalling € 1.0 million was imposed. The Company made a specific addition to the financial statements. On 3 October 2019 the Company filed an appeal with the Lazio Regional Administrative Court – registered under docket no. RG 12290/2019 section I – against the aforesaid sanctioning measure, requesting its cancellation with precautionary suspension. In the Chamber of Council of 6 November 2019 to discuss the request for precautionary suspension, the Regional Administrative Court of Lazio issued Order no. 7223 with which it rejected the application for precautionary suspension.

The decision of the Regional Administrative Court does not address the individual grounds of the appeal, which will only be ruled on at the hearing, yet to be scheduled. In particular, according to the administrative judge *“with regard to the extent of the financial penalty imposed and the feared consequences on the business activity, it does not appear to be extremely serious and urgent as per art. 119, paragraph 4 of the*

Italian Criminal Code for the granting of the requested precautionary protection, also taking into account the fact that the claimant company is in any case entitled to file a request for payment in instalments”.

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

Criminal proceeding no. 2031/2016

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

Notice of IRAP assessment and tax audits

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

The deadline for this action is six months from the date of filing of the judgement, therefore 23 April 2020.

During 2019, the Italian Tax Police also continued its audit of income taxes for the years 2014 to 2018.

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

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

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

With this tax assessment report, the points mentioned in numbers 2. and 3. are resolved, given that the critical points noted in the report and initially ascribed to the tax year 2013 had an impact on subsequent years;

- for the tax year 2014:
 - positive undeclared income components of € 18,800,000.

The Company appealed against these sanctions before the Provincial Tax Commission of Frosinone on 28 February 2020. Supported by the opinion of its tax advisors, the Company believes that there is a risk of losing the case in the “remote” tax proceedings.

With regard to the remaining findings relating to the 2015-2018 finan-

cial years, contested with the PVC of 30 October 2019 and against which no notice of assessment has been served to date, the Company, supported by its tax advisors, has made the necessary assessments regarding the related risk and has set aside a provision for tax risks.

Gori

The Company manages the Integrated Water Service for the entire territory of the “Sarnese Vesuviano” District (EIC definition) of the Campania Region (74 of the 76 Municipalities, given that the Municipalities of Calvanico and Roccapiemonte are managing their water services, not having yet ensured the start of IWS management by the Company) which covers an area of approximately 900 square kilometres with a population of approximately 1.47 million inhabitants.

A total of 4,941 km of water network is currently managed, consisting of 841 km of primary abstraction network and 4,100 km of distribution network, and a 2,418 km drainage system.

Gori currently manages 12 water sources, 118 wells, 214 tanks, 122 water pumping stations, 184 wastewater pumping stations and 9 waste treatment plants.

The Company provides integrated water services on the basis of a thirty-year agreement signed on 30 September 2002 by the Company and the Sarnese Vesuviano Area Authority.

Relations with the Campania Region and with Acqua Campania for wholesale supply

Following the definition and normalisation of relations between the Company and the Campania Region (as well as its concessionaire for collections Acqua Campania SpA), which took place at the end of the 2018 financial year, with regard to the transfer of the so-called “Regional Works” (i.e., some infrastructure of the IWS falling within the territory of Ato 3 and still managed by the Region, hereinafter referred to as “Regional Works”) to the Area Governing Body and, for it, to Gori, as well as to the regional supplies of “wholesale water” and “wastewater collection and purification services” for the period from 1 January 2013 to the second quarter of 2018, the Region, the EIC and the Company reached an overall agreement aimed at the complete implementation of the Integrated Water Service in the Sarnese-Vesuvian District Area within a framework of economic-financial equilibrium of the management for its entire residual duration and the pursuit of the following related objectives: 1) Gori’s assumption of the service’s management and, by way of concession and in accordance with the provisions of the current Management Agreement of the Ato 3 IWS, the assumption of the Regional Works and the consequent works to improve their efficiency, including the redeployment and efficient employment of the relevant personnel engaged in the IWS; 2) approval by the Campania Region of plans for the payment in instalments of the debt accrued by the Company for the wholesale supplies provided from 2013 onwards, and the concurrent resolution of the complex legal dispute that has arisen with respect to the payment for the regional “wholesale water” supplies and the regional “wastewater collection and purification” services; 3) the creation of conditions to facilitate Gori’s access to the credit market; 4) the commitment of the parties to the extent of their remit to restore/maintain the economic-financial equilibrium of the Ato 3 IWS if the need should arise. In fact, the overall agreement reached with the Region and the EIC allowed the company to subscribe a long-term loan with a pool of banks on 18 July 2019 with an availability period of 4 years, a ten-year term and a final maturity for repayment on 31 December 2029.

Update of the 2016-2019 Regulatory Framework of the Sarnese-Vesuvian District of the Campania Region

Preliminarily, it is clarified that the ARERA has determined: a first transitional tariff method for the years 2012 and 2013 (which entire-

ly replaced the previous “normalised method” referred to in Italian Ministerial Decree LL.PP. 1 August 1996), issued with resolution 585/2012/R/ldr (“Transitional Tariff Method” or “MTT”); a second water tariff method for the years 2014 and 2015 issued with resolution 643/2013/R/ldr (“Water Tariff Method” or “MTI”); a third and currently applicable water tariff method for the second regulatory period 2016-2019 implemented with resolution 664/2015/R/ldr, as amended by subsequent resolution 918/2017/R/ldr (“Water Tariff Method - 2” or “MTI-2”).

Based on the tariff method implemented by the Authority, the Area Governing Body is required to prepare the Regulatory Scheme for the period of reference, which is then approved by the Authority.

In fact, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, in execution of the ARERA 664/2015/R/ldr resolution, prepared the 2016-2019 Regulatory Scheme with resolution no. 19 of 8 August 2016 and then updated it, in execution of the ARERA 918/2017/R/ldr resolution, with resolution no. 39 of 17 July 2018. With this last resolution: 1) the RCappr adjustment component was valued at € 216,948,037; 2) the Operator’s Revenue Constraint (“VRG”) for the years 2016 was recognised (VRG: € 167,958,694); 2017 (VRG: € 183,072,979), 2018 (VRG: € 197,001,101) and 2019 (VRG: € 206,352,671) as well as the corresponding “tariff multipliers” for the 2018 financial years (0.1.247505) and the 2019 financial year (0.1.309880); 3) it was decided to allocate the FoNI quota already envisaged for the year 2017 and not yet used to finance tariff reductions of a social nature; 4) the additional Water Bonus was established with the valuation of the OPsocial cost component for the years 2018-2019; 5) table no. 2 was updated relating to accruals, amortisation and separate loans for Municipalities of Ato 3. In addition, the 2016-2019 Regulatory Scheme updated with Resolution 39/2018 was prepared on the basis of a plan aimed at the full implementation of the IWS of the Sarnese-Vesuvian District that guarantees, concurrently with economic-financial equilibrium: (a) the social sustainability of the IWS tariff applied to users, (b) the investments necessary for the improvement of the service as well as (c) the recovery of accumulated tariff adjustments.

Refer to the entire contents of the paragraph “Service Concession Arrangements” also for information on the financial effects deriving from the conclusion of the recognition of equalisation measures.

Gesesa

The Company operates in Ato 1 Calore Irpino which promotes and develops the initiative for the Management of the Integrated Water Service in Municipalities in the Province of Avellino and Benevento. Currently, the Authority – governed by the Extraordinary Commissioner referred to in DGR no. 813/2012 and merged into the regional EIC at the end of 2018 – has not yet assigned the management of the Integrated Water Service (aqueduct, sewerage and treatment) to a single operator. Gesesa manages the Integrated Water Service in 22 Municipalities in the province of Benevento for a total resident population of about 123,000 inhabitants spread over an area of about 710 square kilometres with a water infrastructure of about 1,541 km, a sewerage network of 553 km and about 300 plants managed. The total number of user accounts amounts to about 57,000, for which 2019 consumption has been estimated at about 8 million cubic metres of water.

The sewerage service is provided to approximately 80% of users while the purification service reaches about 40% of users.

During 2019, the Company began to establish the foundations consistent with the resolutions of the Board for a new path of growth and development aimed at achieving strategic objectives that provide for company growth. In this regard, a capital increase operation was already approved to aggregate new operations with the direct assignment of the Integrated Water Service by new Municipalities, using an instrument that is given by the regulatory pro-

visions contained in Italian Legislative Decree 175/2016 containing the “Consolidated Law on companies in which the public administration participates”. Art. 4 of the aforementioned regulation allows Municipalities to acquire company shareholdings in activities producing a service of general interest, subject to the body’s verification of the economic convenience of the direct or externalised management of the service entrusted to private operators.

This gives the Company the opportunity to proceed with new acquisitions of IWS and therefore to continue its development in the territory falling under Ato 1, pending the identification of the single operator, implementing a management development that, upon reaching at least 25% of the population served, would establish the Company as an interlocutor able to request the direct awarding of the entire territory as Sole Manager.

With regard to the bi-annual updating of the 2018-2019 tariffs, the activity was conditioned by the taking over of the Ente Idrico Campano (hereinafter EIC) in the legal relations established by the Calore Irpino Area Governing Body as from 1 October 2018.

The Company prepared the 2016 and 2017 financial statements as well as the Works Programme for the preparation of the proposed tariff revision with the definition of the VRGs and Thetas for the years 2018-2019, reviewing the investment planning for the years 2018-2019, also taking into account the results of the audit of 16-20 October 2017 contained in ARERA determination no. DSAI/26/2018/IDR of 10 April 2018 concerning the initiation of proceedings for the adoption of sanctions and prescriptive measures concerning the tariff regulation of the Integrated Water Service.

At present, the 2018-2019 tariff proposal submitted on 22 May 2019 is in the process of being approved by the EIC and will subsequently be sent to ARERA for ratification.

As a result of the above, revenues were recognised on the basis of the VRG currently being approved by the EIC.

Tuscany – Umbria Area

Acque

The management agreement, which came into force on 1 January 2002 with a 20-year duration (expiry is now in 2031), was signed on 28 December 2001. In accordance with said agreement, the Operator took over the exclusive integrated water service of Ato 2, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of wastewater. The Area includes 57 Municipalities. In return for award of the concession, Acque pays a fee to all the Municipalities, including accumulated liabilities incurred under previous concessions awarded.

With Resolution no. 6/2018 of 22 June 2018 concerning the “Update of the tariff structure 2018-2019”, the Board of Directors of the Tuscany Water Authority modified, with the same tariff multipliers, the composition of the 2016 and 2017 tariffs approved by resolution AIT no. 32/2017 of 5 October 2017 providing for a re-modulation of the recovery of tariff adjustments for approximately € 9.7 million in the period 2022-2023.

With the same resolution the Board of Directors of the Tuscany Water Authority approved the 2018-2019 tariff proposal, the update of the works programme, the updating of the economic and financial plan and the extension of the duration of the concession of service from the previous deadline of 31 December 2026 to the new deadline of 31 December 2031. On 9 October 2018 with Resolution no. 502/2018/R/Idr Arera approved the tariff proposal.

The new Tariff plan with the end of the concession on 31 December 2031, compared to the previous plan with the end of the concession on 31 December 2026, contains the forecast of greater investments in service infrastructure and more contained tariff increases.

Therefore, as a result of the new tariff proposal, the 2019 tariff multiplier was equal to 1.50%, whereas in 2018 it was equal to 5.39%.

Finally, it is noted that on 24 January 2019, with the submission of the required documentation, with the termination of the previous

loan and the related hedging contracts and with the stipulation of the new interest rate hedging contracts, the suspensive conditions were met and, therefore, the new loan agreement became effective. The new loan was stipulated with a pool of banks and envisages two lines of credit: 1) Term Line of € 200.0 million disbursed in a single use and with final single maturity of 29 December 2023 and, 2) RCF Line equal to € 25.0 million payable in one or more uses within the period of use and final maturity on 29 December 2023. This line must be used exclusively to meet the financial needs of the Company for its ordinary business.

At the same time the new loan agreements were entered into, 6 new interest rate hedging contracts were entered into. The new contracts envisage the Company's semi-annual payment of a fixed rate to the counterparties starting from 24 January 2019 and in correspondence with a payment by the counterparties to Acque of a variable rate.

Publiacqua

The management agreement, which came into force on 1 January 2002 with a twenty-year duration, was signed on 20 December 2001. On the basis of this agreement, the Manager receives in exclusive custody the integrated water service of the Ato 3 made up of all the public services for the collection, supply and distribution of water for domestic uses, sewerage and wastewater treatment. The Area includes 49 Municipalities, of which 6 managed via agreements inherited from the previous operator, Fiorentinagas.

In return for awarding the concession, the Operator pays a fee to all the Municipalities, including accumulated liabilities incurred prior to the awarding of the related contracts.

With regard to the new tariff structure, with resolution no. 29/2016 of 5 October 2016 the AIT approved the tariffs for the second 2016-2019 regulatory period (MTI-2) pursuant to the ARERA resolution no. 664/2015. With resolution 687/2017R/IdR ARERA approved the tariffs proposed by the Tuscany Water Authority on 12 October 2017. Following the approval of the new tariff structure envisaged by the ARERA Resolution no. 665/2017R/IdR (TICSI), Publiacqua has billed according to the new structure since August. Finally, with resolution no. 24 of 7 December 2018 the AGB approved the 2018-2019 tariffs. At the same time it approved the extension of the Company's concession until 2024, the Company began a market survey with the main financial institutions, aimed at verifying the availability and economic conditions to proceed with the disbursement of a medium/long-term bank loan aimed in part at extinguishing existing financial exposures and in part at supporting the investments provided for in the new approved Intervention Plan.

On 18 June 2019 the banks were invited to submit a binding offer on the basis of a term sheet. Following the offers received, on 31 July 2019 the Company signed the new loan for € 140.0 million divided among five lending banks. The **Base Line** must be used for the full repayment of the existing Loan stipulated on 30 March 2016 with BNL and Banca Intesa for the payment of the ancillary costs of the new Loan and for the requirements related to the realisation of the investments envisaged in the EFP, while the **Investment Line** will be used to fully cover the requirements for further investments envisaged in the EFP. Among the conditions precedent to the disbursement of the loan, the lending banks have requested ARERA's approval of the new Tariff Plan, including the extension of the concession.

AdF

Based on the agreement signed on 28 December 2001, the operator (AdF) is to supply integrated water services on an exclusive basis in Ato 6, consisting of public services covering the collection, abstraction and distribution of water for civil use, sewerage and wastewater treatment. The concession term is twenty-five years from 1 January 2002.

With regard to the update of the tariffs for the period 2018-2019, on 27 July 2018, based on the actual data collected referring to the

years 2016 and 2017 and the Investment Plan, the AIT approved the tariff revision proposal, setting the VRG and the Theta of the years 2018-2019 and also redesigning the entire tariff profile until the end of the IWS concession (Deliberation of the Executive Council of the AIT no.17/2018 of 27 July 2018). Following further analysis of the greater needs for AdF investments related to technical quality, with Resolution no. 10/2019 of 1 July 2019 the Board of Directors of the Tuscan Water Authority produced and submitted to ARERA a new tariff proposal with re-modulation of the 2031 deadline, which the Authority finally approved with Resolution no. 465/2019R/IdR of 12 November 2019, confirming the levels of the original 2018-2019 proposed theta.

With regard to the structured bank loan signed on 30 June 2015, during the year AdF initiated discussions with lending institutions in order to revise some conditions of its existing loan agreement.

In fact, at the end of the negotiations AdF obtained consent to modify the repayment terms starting from 2020 and to improve the financial conditions (spread on the Euribor equal to 1.9%), the latter supported by the issue of a guarantee by Acea to partially cover the payment obligations deriving from the contract. In this context, in view of the financial commitment required of the Parent Company Acea, the Shareholders agreed to review the existing Shareholders' Agreements, and consequently the provisions of the by-laws with regard to the governance of the Company in order to attribute greater management powers to the Private Shareholder. The direct consequences of these changes led to the transfer of the consolidation of AdF from equity valuation to full consolidation of the equity investment held indirectly by Acea through its subsidiary Ombrone.

Umbra Acque

On 26 November 2007 Acea was definitively awarded the tender called by the Area Authority of Perugia Ato 1 for selection of the minority private business partner of Umbra Acque SpA (concession expiry 31 December 2027). A stake in the company (40% of the shares) was acquired on 1 January 2008.

The company performed its activities in all 38 Municipalities constituting Atos 1 and 2.

The tariff applied to users for the year 2019 is the rate applied to users was determined by Resolution no. 489 2018R/IdR of 27 September 2018 with which ARERA approved the updating of tariff arrangements for the two-year period 2018-2019, previously proposed by the Assembly of Mayors of the AURI with Resolution no. 9 of 27 July 2018. Finally, we inform you that on 29 December 2018 the request to extend the duration of the assignment to 31 December 2031 pursuant to art. 5.2 and 5.3 of the Convention and Resolution 656/2015R/IdR.

Geal

The Company manages the Integrated Water Service in the Municipality of Lucca in accordance with the Management Agreements with the local authority expiring on 31 December 2025, updated during 2013 to take into account the memorandum of understanding signed with AIT on 29 November 2011 and in 2016 pursuant to ARERA Resolution no. 656/2015. With regard to tariffs, it should be noted that ARERA approved the plan for the four-year period 2016-2019 with resolution no. 726 of 26 October 2017 and approved the related update with resolution no. 387 of 12 July 2018, also incorporating the request made by GEAL for the recognition of the OpexQT component for € 180,000/year. According to this measure, tariffs for the last two years fell by 3.53% at the beginning of 2018 and remained unchanged until the end of 2019.

Progress of the procedure for approving the tariffs

The progress of the procedure for approving tariffs and the approval of the two-year update (2018-2019) of the IWS tariff provisions for the Group companies is shown below.

Company	Approval status (up to MT12 "2016-2019")	Biennial update status (2018-2019)
Acea Ato 2	On 27 July 2016, the AGB approved the tariff inclusive of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. The ARERA then approved them in Resolution 674/2016/R/idr, with some changes compared to the AGB's proposal; quality bonus confirmed.	he Conference of Mayors approved the tariff update on 15 October 2018. On 13 November 2018, the ARERA approved the tariff update with Resolution 572/2018/R/idr. The Conference of Mayors adopted the provisions of the ARERA resolution on 10 December 2018.
Acea Ato 5	Tariff proposal submitted by the Operator on 30 May 2016, with request for recognition of the $Opex_{qc}$. ARERA warned the AGB on 16 November 2016 and the EGA approved the tariff proposal on 13 December 2016, rejecting, among others, the request for recognition of the $Opex_{qc}$. Approval by the ARERA is awaited.	The Conference of Mayors approved the 2018-2019 tariff update on 1 August 2018. Currently approval by the ARERA is awaited.
Gori	On 1 September 2016, the Extraordinary Commissioner of the AGB approved the tariff with $Opex_{qc}$ as of 2017. Approval by the ARERA is awaited.	On 17 July 2018 the Extraordinary Commissioner of the AGB approved the 2018-2019 tariff update. Currently approval by the ARERA is awaited.
Acque	On 5 October 2017, the AIT approved the tariff with recognition of the $Opex_{qc}$. Approved by ARERA on 9 October 2018 (as part of the approval of the 2018-2019 update).	On 22 June 2018 the AIT Board of Directors approved the 2018-2019 tariff update and, at the same time, the request to extend the duration of the 5-year contract, that is until 31 December 2031. With resolution 502 of 9 October 2018, the ARERA approved the 2018-2019 tariff update.
Publiacqua	On 5 October 2016, the AIT approved the tariff with recognition of the bonus as per art. 32.1, subsection a) of Resolution 664/2015/R/idr. With resolution 687/2017/R/idr, on 12 October 2017 ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 7 December 2018 the AIT approved the 2018-2019 tariffs with the extension of the 3-year concession. Currently approval by the ARERA is awaited.
AdF	On 5 October 2016, the AIT approved the tariff with recognition of the $Opex_{qc}$. On 12 October 2017, with resolution 687/2017/R/idr ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	The AIT Board of Directors approved the 2018-2019 tariff update in the session of 27 July 2018. Pending approval by ARERA, the AIT Board of Directors also approved the application to extend the concession to 31 December 2031, submitted by the Company in April 2019 and approved at the Territorial Conference in June 2019. The updated tariff proposal was then presented to extend it to 2031, which in any case confirmed the tariff increase (theta) and the Guaranteed Revenue Constraint (GRC) for the years 2018 and 2019, already approved by the AIT with its resolution of July 2018. ARERA approved the two-yearly update (with a small correction of the recognised $Opex_{qc}$) and the extension of the concession with Resolution no. 465 of 12 November 2019.
Geal	On 22 July 2016, the AIT approved the tariff with recognition of the $Opex_{qc}$. With resolution 726/2017/R/idr, on 26 October 2017 ARERA approved the specific regulatory frameworks for the 2016-2019 period proposed by the AIT.	On 12 July 2018 ARERA approved the 2018-2019 tariff update proposed by AIT.
Crea Gestioni	Following Resolution no. 664/2015/R/idr, both for the Municipality of Campagnano di Roma (RM) and the Municipality of Termoli (CB), Municipalities where Crea Gestioni offers the IWS, neither the Granting Body nor the Area Authority of reference submitted a tariff proposal for the regulatory period 2016-2019, so the Company independently submitted tariff proposals. Currently approval by the ARERA is still pending.	The Company has submitted the data to the competent parties/AGB in order to update the 2018-2019 tariff. For the management of the IWS in the Municipality of Campagnano di Roma (RM), given the inaction of the designated parties the Company filed an application with ARERA in January 2019 for a tariff adjustment in 2018-2019, also revising the 2016-2019 proposal. ARERA has not yet pronounced or issued a warning to the AGB and/or to the competent parties. For the management of the IWS in the Municipality of Termoli (CB), with a resolution dated 17 December 2019 the Municipal Council of Termoli approved the alignment of the existing Agreement to the Agreement template, extending its expiry to 31 December 2021, and confirmed the tariff increase for 2018 and 2019, also revising the 2016-2019 proposal. Currently approval by the ARERA is therefore awaited.

(follows)

Company	Approval status (up to MTI2 "2016-2019")	Biennial update status (2018-2019)
Gesesa	On 29 March 2017 the Extraordinary Commissioner of Ato Alto Calore Iripino approved the tariff arrangement for the years 2016-2019 with resolution no. 8. Approval by the ARERA is awaited.	The Company submitted the documentation relating to the 2018-2019 tariff revision to the Area Authority, and the investigation by the AGB should be completed in early 2020 with the final approval by the Executive Committee of the EIC (Ente Idrico Campano).
Nuove Acque	On 22 July 2016, the AIT Shareholders' Meeting approved the rates.	On 22 June 2018 the Board of Directors of AIT approved the 2018-2019 tariff update. On 16 October 2018 with Resolution 520 ARERA approved the tariff update proposed by AIT.
Umbra Acque	On 30 June 2016, the AGB approved the tariff with recognition of the $Opex_{gc}$. The ARERA then approved them in Resolution 764/2016/R/idr dated 15 December 2016.	In its session of 27 July 2018, the AURI Meeting approved the 2018-2019 tariff update. The ARERA approved the 2018-2019 tariffs with resolution no. 489 of 27 September 2018.

Pending completion of the approval process, which is still in progress, the revenues recorded are determined on the basis of the tariff schemes previously approved by ARERA or by the respective Area Government Agencies, as better represented above. In this regard, on 5 February 2020 ARERA confirmed this approach, in particular "with regard to the proposals for the bi-annual update of the tariff arrangements for the years 2018 and 2019 sent by the area governing bodies pursuant to Resolutions 917/2017/R/idr and 918/2017/R/idr, but not yet affected by specific acts of approval by the Authority, it is clarified that the Authority will complete the investigations aimed at ascertaining the consistency of the relevant technical and tariff data as part of the checks on the specific regulatory schemes proposed for the third regulatory period (2020-2023) in compliance with the water tariff method MTI-3 referred to in Resolution 580/2019/R/idr. For the

two-year period 2018-2019, the tariff determinations adopted by the competent entity remain valid, which will be assessed by the Authority – as part of the quantification of the adjustment components referred to in article 27 of MTI-3 – when approving the new regulatory scheme". For more details on the matter, see the paragraph "Service Concession Arrangements".

REVENUES FROM THE INTEGRATED WATER SYSTEM

The table below indicates, for each Company of the Water Area, the amount of revenue for 2019 valued on the basis of the tariff calculations assumed by the respective AGB or ARERA. The data includes the adjustment of passing items, the FoNI component, the $Opex_{gc}$ or the award as per art. 32.1, subsection a) of resolution 664/2015/R/idr.

Company	Revenue from the IWS (pro quota values in € million)	FoNI/Bonus (pro quota values in € million)
Acea Ato 2	593.3	FNI = 20.2 AMM _{FoNI} = 8.7 Premio = 35.9
Acea Ato 5	76.9	FNI = 7.0 AMM _{FoNI} = 3.4
Gori	189.1	-
Acque	73.3	AMM _{FoNI} = 4.7
Publiacqua	101.4	AMM _{FoNI} = 12.0
AdF	60.4	AMM _{FoNI} = 5.2
Gesesa	12.3	-
Geal	9.3	FNI = 1.2 AMM _{FoNI} = 0.6
Crea Gestioni	4.4	-
Umbra Acque	32.4	FNI = 2.6 AMM _{FoNI} = 1.5

ENERGY INFRASTRUCTURE OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2019	31/12/2018	Change	% Change
Energy Produced (hydro + thermal)	GWh	506	540	(34)	(6.3)%
Energy Produced (photovoltaic)	GWh	24	10	14	149.1%
Electricity distributed	GWh	9,849	9,792	57	0.6%
no. of Customers	N/000	1,641	1,629	13	0.8%
Km of Network	Km	30,627	30,704	(77)	(0.3)%

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	682.5	687.2	(4.7)	(0.7)%
Costs	290.6	326.5	(35.9)	(11.0)%
EBITDA	392.0	360.7	31.2	8.7%
Operating profit/(loss) (EBIT)	237.7	198.8	38.9	19.6%
Average headcount	1,354	1,387	(33)	(2.4)%
Capex	287.8	238.3	49.4	20.7%
Net financial debt	1,320.5	1,121.9	198.6	17.7%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Energy Infrastructure Segment	392.0	360.7	31.2	8.7%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	37.6%	38.7%	(1.0 p.p.)	

EBITDA at 31 December 2019 was € 392.0 million, an increase of € 31.2 million compared to 31 December 2018. The change in EBITDA is mainly due to **areti** for € 28.3 million, primarily attributable to the energy balance sheet (+ € 18.2 million) as a result of tariff updates, equalisation and higher investments, as well as higher capitalisation of personnel costs (+ € 6.5 million). As regards the energy balance, at 31 December 2019 areti injected 9,849 GWh into the network with a 0.6% increase compared to 2018.

The EBITDA for **Public Lighting** is equal to € 1.9 million, an increase of € 7.3 million compared to 31 December 2018 (when it was negative for € 5.4 million). In July 2019, the transformation of the functional lights envisaged in the agreement was completed, while work continued on the projects relating to the new activations requested by both Roma Capitale and third parties. There was a significant increase in activity on new projects (+ € 1.8 million) linked to a substantial reduction in external costs (- € 1.8 million). It should be noted that during 2019, 12,014 light fixtures were replaced in addition to the 170,556 already replaced at the end of 2018. Extraordinary maintenance and modernisation and safety activities agreed with Roma Capitale were carried out, thus creating 985 new lighting points.

Acea Produzione's EBITDA was € 38.6 million, down € 7.7 million on the previous year. The change is attributable both to lower production volumes and lower market prices. The change is also due to lower production volumes and higher gas purchase and consultancy costs, partly mitigated by the revenue from penalties and revenues from Energy Efficiency Certificates sold in the period. The EBITDA deriving from the change in the scope of consolidation

for the acquisition of the photovoltaic companies amounts to € 3.6 million and concerns the acquisition of the photovoltaic companies during the second half of 2019. The installed capacity of the new plants is 28 MWp.

The first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower rentals for € 1.7 million.

The average workforce decreased by 33 units, primarily in **areti**.

The operating result was mainly affected by the release of a provision made in connection with the Gala deal for € 12.8 million, partly offset by higher amortisation and depreciation for the period (+ € 14.2 million), of which € 3.0 million for changes in the scope of consolidation (new photovoltaic companies).

Investments amounted to € 287.8 million, an increase of € 49.4 million mainly due to **areti** (+ € 47.2 million) and mainly refer to the renewal and upgrading of the MV/LV network and the development of ISTE projects (+ € 38.5 million), as well as work on primary and secondary cabins and meters. We also note the purchase of the Via Flaminia headquarters (€ 2.8 million). Intangible investments refer to projects for the re-engineering of information and commercial systems. This year the so-called "Resilience Plan" was implemented, which consists of interventions on substations and on the MV and LV networks.

Investments made by **Acea Produzione** amount to € 11.5 million (- € 3.4 million) and mainly concern plant revamping works for the Mandela and Tor di Valle and Montemartini hydroelectric power plants, static and functional upgrades of the tunnels deriving from the San Cosimato dam reservoir and the extension of the district heating network in the Mezzocammino district in the south of Rome.

Net financial debt stood at € 1,320.5 million at 31 December 2019, showing an increase of € 198.6 million compared to 31 December 2018. The effects are mainly due to the growing volume of investments, as well as to the dynamics of the operating cash flow and payout. The change in the consolidation area increased financial debt by € 60.0 million, while the first-time adoption of IFRS 16 contributed to an increase in financial debt of € 23.1 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

Gala

With Resolution 50/2018/R/eel of 1 February 2018, the Authority approved a mechanism for recognising charges otherwise not recoverable due to the failure to collect general system charges. At 31 December 2019 the total receivables accrued by the Company amounted to € 73.7 million, including billed interest. Such interest was excluded from the mechanism for the reinstatement of general charges by Resolution 300/2019/R/EEL and subsequently readmitted to the mechanism by Resolution 495/2019/R/EEL. By 31 January 2020 CSEA will prepare a method for adding the applications already submitted in order to also include the portion relating to interest on arrears invoiced in accordance with the initial provisions of art. 1.4, letter a), number 4) of Resolution 50/2018/R/EEL.

On 27 December 2019 Resolution 568/2019/R/EEL was also issued, which provides for the recovery of the portion relating to network tariffs similar to the model for the recognition of uncollected general system charges. In particular, taking into account the comments received during the consultation, it confirms access to the mechanism each year *n* if the amount of non-collectable receivables relating to network tariffs not yet covered – calculated considering the cumulative amount in the years 2016, 2017 and 2018 – exceeds 0.75% of the revenues allowed in 2018, with the application of a deductible equal to 10% of the total amount of non-collectable receivables. The first application of the mechanism is scheduled for 2020 with a request to be submitted during the year according to a method to be defined, and with a subsequent measure to be adopted by 30 April 2020. The Gala portion will amount to about € 11 million.

It should also be noted that with resolution no. 583 of 20 November 2018, the ARERA rejected the complaint presented by Gala Power Srl, a company of the Gala Group, regarding areti's refusal to stipulate a transport contract with it given the established existence of a single decision-making centre subsisting between Gala Power and its parent company Gala, in light of the significant debt exposure accrued by the latter with respect to areti. Gala Power appealed against the Authority's decision before the Lombardy – Milan Regional Administrative Court, Section I, judgement no. 1936 published on 2 September 2019 and not served. This judgement was appealed before the Council of State on 29 November 2019.

It should also be noted that with resolution no. 181 of 14 May 2019 ARERA rejected the complaint submitted by EEMS Italia SpA, also a Gala Group company, against areti's refusal to enter into a transport contract with that company, deeming the claim made by the complainant unfounded on the grounds that since it had not established any direct or indirect relationship with at least one end customer, it did not meet the mandatory condition laid down in the regulation for the validity of the transport contract. On 27 August 2019 EEMS Italia again requested to enter into a transport contract. In response to the request for clarification sent by the Company, EEMS Italia SpA filed a new complaint with ARERA on 5 December 2019.

Finally, it should be noted that with sentence no. 270 of 6 February 2019 the Lombardy Regional Administrative Court fully rejected the appeal filed by Gala SpA against ARERA Resolution

109/201/R/EEL of 6 March 2017 concerning guarantees for the collection of general electricity system costs.

Technological innovation projects

2G digital meter project

In an increasingly advanced technological and energy context, the "2G Digital Meter" project was launched by areti with the aim of replacing the first-generation electricity meter system with the 2G Smart Metering system in compliance with the requirements of ARERA resolution 306/2019/R/eel. In this regard, on 5 April 2019 areti launched the procedure for the selection of the supplier of the field equipment (meters and concentrators) and the related Central Purchasing System (Management Centre) which ended on 12 September 2019 with the publication of the award. Following the conclusion of the tender procedure, on 14 September 2019, the Request for Authorisation to Recognise Investments (RARI) was submitted to ARERA. The start of the mass installation plan is subject to the approval of the RARI, expected by March 2020. The installation of the concentrators will start in May 2020 and the mass replacement of the meters will start in October 2020. At the same time as the start of the tender procedure, areti initiated the re-engineering of the business processes impacted by the 2G Project preparatory to the adaptation of the application map and the needs of the new CG2G system. Tenders are currently under way for the procurement of services to install 2G concentrators and replace 2G meters.

Smart Grid Intelligence platform evolution (SGI – Electrical data)

During 2019, activities continued to optimise the integration of the SGI system with the source systems (SCADA, GIS, etc.) through the creation of appropriate data tools that allow the identification and correction of misalignments between the source systems. An acquisition level of 99.3% and an entity integration level of 96.14% were achieved.

These tools have made it possible to improve and certify the quality of the data, thus increasing the quality of the output of advanced analysis, like the calculation of impact metrics on all elements of the network that is now available on 100% of the nodes/branches of the network.

These metrics have been used to support planning and network developments.

Algorithms for the precise estimation of electrical loads by secondary cabin nodes and MV branches have also been developed.

Appropriate procedures have been prepared to populate a database with data gathered from different source systems (TESS, GIS, STM) for all MV failures from July 2017. These data were used to build a statistical model of the failure rate of network elements. Appropriate procedures have been prepared to populate a database with the maximum daily and annual branch currents from July 2017. Finally, the usability of the monitoring and navigation tools made available to the user has been improved.

The technological upgrade of the platform is nearing completion, updating Netezza, Datastage and Cognos with the related migration of existing reports, as well as the installation of SPSS analytics.

San Saba project

The project consists in the redevelopment of a portion of the LV and MV networks in a public and private metropolitan setting and in the simultaneous preparation of a fibre optic network to support the electricity service. These new systems allow the use of technologically advanced equipment, above all aimed at guaranteeing greater flexibility in the manoeuvring and protection of the portions of the network supplying power to final customers, with the aim of improving the quality and continuity of the service provided. The joint construction of electricity and fibre optic networks makes

it possible to optimise authorisation and installation (sharing road licences, permits in private areas, excavations and restoration work) and provides a useful context for experimenting with new system engineering technologies.

DRONES project

With regard to the Drone Project, in 2017 the use of remote-controlled aircraft was experimented with for inspections of overhead power lines to detect partial discharges on overhead lines, the patent relating to the “Ultrasound Sound System” being filed on 6 June 2017. Further efforts were made to define solutions using lightweight drones for simplified mass inspection, and photogrammetry tests were carried out on overhead lines with lightweight fixed-wing drones. In particular, in 2019 detailed photographic surveys were carried out at the Acea headquarters for structural verification of the cornices, experiments with 3D reconstruction of buildings and participation in “Exercise 2018” with the Civil Protection Department, searching for missing persons.

A test was also prepared and completed with ENAC and ENAV for flight missions in BVLOS (Beyond Visual Line Of Sight) mode, i.e. long-distance flight without visual control of the vehicle. Finally, the land drone prototype (rubberised) was developed and released for automatic inspections in primary cabins and/or other sensitive sites. In the first half of 2019 data acquisition tests were carried out in preparation for final testing.

Finally, during H1 2019 a pilot experiment was launched with Acea Produzione for the radiometric thermography of the district heating network in order to identify the integrity of the pipelines. The activity was carried out using a lightweight drone with the support of the Pick-up (mobile laboratory).

New Secondary Cabin project

The New Secondary Cabin Project was launched in 2018, starting with design development.

During 2019 the first set of functions to be implemented in the RTU was defined, and the specifications were drafted for the production of the LV switchboards with latest generation switches that can be remote controlled by means of a serial bus used in the first prototypes.

The prototypes were tested in the laboratory and subsequently installed in four secondary booths to monitor their correct operation, both for the remote control aspect and for the operation of the new automatic reset on overcurrent trip.

At the same time the technical specifications for LV switchboards and RTU were issued. The tender for LV switchboards was awarded, and the tender for the new RTUs for the installations planned in 2020 was launched. A further 16 cabins have also been installed to complete the pre-production phase of the project and to prepare what is necessary for the mass installations in 2020.

FIBRE OPTIC project

During 2018, areti began technological scouting to identify the best telecommunications technology for the creation of a network with high reliability and speed that would allow connecting all the primary and secondary cabins in a smart grid.

The architecture of the new TLC network was defined in early 2019, which will allow areas to control and command all primary and secondary cabins, also allowing additional services useful for network management to be conveyed, and in the future will be able to promote the development of smart cities.

The TLC project provides for the creation of a high-speed and reliable back bone network that will bind all primary cabins to a small part of secondary cabins. These will constitute the main framework of the network – consisting of secondary fibre optics connecting all secondary cabins and relevant points for the power grid – from which will be launched all the smart grid services,

followed later by smart city services. This network structure will ensure security and reliability in the transmission of information between the centre and the periphery useful to allow the proper operation of Operation Technology systems and network management systems, also the remote control of equipment installed in secondary cabins and, where possible, the measurement points and other types of sensors in order to convey to the central systems all the information acquired through sensors and field equipment.

Electric recharging and storage systems

The project involves the construction of new structures for recharging the company’s fleet of electric vehicles in the company car park in Piazzale dei Partigiani (Acea Car Park) (the recharging system was completed in 2018). The project will also include a photovoltaic generation plant and a storage system. The energy produced will be stored through the reuse of equipment previously installed for experimental purposes at CP Raffinerie.

The design for the construction of the photovoltaic generation system was completed and the process is under way for the outsourcing of the reuse of the CP Raffinerie storage system and the installation of a new storage system at the car park in Piazzale dei Partigiani.

Public Lighting

As at 31 December 2019, 12,000 transformations were carried out (for a total of 182,556 transformations), completing what had been envisaged in the LED Plan. Extraordinary maintenance and modernisation and safety activities agreed with Roma Capitale were also carried out, thus creating 3,110 new lighting points.

Production of electricity

The **Acea Produzione** production system is currently constituted by a group of generation plants, with an overall installed power of 226.6 MW, comprising five hydroelectric plants (three in Lazio, one in Umbria and one in Abruzzo), 52 photovoltaic plants (with an installed capacity of 8.6 MWp), two so-called mini hydro plants, Cecchina and Madonna del Rosario, two thermoelectric power stations, Montemartini and Tor di Valle, the latter consisting of a modern high-efficiency cogeneration plant, replacing the previous combined-cycle plant. The new plant consists of two high-efficiency methane gas powered engines each with an electrical power of 9.5 MW, for a total of 19 MW, as well as three supplemental boilers and 6 storage tanks. In the current configuration, in addition to selling electricity to the market during the most profitable hours, the plant provides electricity in SEU to the total electricity users of the adjoining Rome South Treatment Plant and the thermal energy necessary for the supply of district heating service in the districts of Torrino Sud, Mostacciano and Mezzocammino in the Municipality of Rome.

In 2019, the Company generated a volume of 516.1 GWh through the directly owned power plants. During the period, the Company’s production was subdivided into the portion related to hydroelectric plant production of 417.9 GWh, the share of production from mini-hydro plants of 2.2 GWh, the share of thermoelectric production of 85.1 GWh and the portion related to photovoltaic production of 10.9 GWh. The Company’s production mix is mainly from renewable sources with a share of “green” production equal to about 90% of the total. In addition, about 60% of total production is incentivised following investments in hydroelectric power plants or participation in the so-called “feed-in tariff” for the photovoltaic segment.

With regard to district heating, the Company, through the cogeneration module of the Tor di Valle power plant, supplied heat to the Torrino Sud and Mostacciano districts (located in the south of Rome) for a total of 66.75 GWh, for a total of 3,406 utilities served (259 condominiums and 3,147 real estate units).

Co-generation

The operational management of **Ecogena** focuses mainly on three areas: 1) consulting in the Esco sector and offering services related to obligations to increase the energy efficiency of third parties (inside or outside of the Acea Group); 2) the supply of energy service through the management of cogeneration (or trigeneration) plants and district heating networks and the sale of energy produced to customers; and 3) the coordination of Group companies with regard to energy efficiency projects.

The Company's production system is made up of a set of cogeneration plants, combined with district heating networks, for a total of 5.0 MW of installed electric power in Umbria and Lazio.

The production of thermal and refrigeration energy is increasing compared to previous years, while there was a slight overall decrease in electricity production. As at 31 December 2019, Company achieved a production volume of around 14.3 GWh (electricity), 28.7 GWh (thermal) and 10.5 GWh of refrigeration.

Also for 2019, the Company requested CAR/CB (High Yield Co-generation) qualification of all the plants managed, issuing the TEEs for 2018.

With regard to Europarco's trigeneration plant, the expansion of the plant has almost been completed, doubling the cooling capacity installed in the plant with a relative increase in electricity and the addition of a third boiler.

Ecogena also started work on improving the energy efficiency of the air conditioning system of the Acea data processing centre (Cedet), which is scheduled to be completed in February 2020.

In 2019 Ecogena collaborated with Acea Innovation in the electric mobility sector, contributing with the first six installations of charging

stations for electric vehicles in preparation for the pilot project for the launch of an electric carsharing service within the Group.

Moreover, in line with the Acea Group's mobility plan for the period 2020-2023, the Company is finalising an agreement that qualifies it to operate as system integrator of Acea Innovation (Charge Point Operator).

Ecogena has also started scouting to identify potential partners and customers for energy efficiency initiatives, such as renovation of building exteriors to save energy (so-called thermal cladding).

Specifically, following a market analysis of the regulatory instruments known as "Ecobonus and Sismabonus", an internal collaboration with Acea Energia was initiated to identify and process commercial opportunities in this sector.

Also during 2019, Ecogena approved the "Saccir" operation that will enable the acquisition of additional cogeneration plants at third-party industrial/directional facilities (Klopmann and Kordenpharma) with a capacity of over 5 MW.

Finally, Ecogena has earned the following management system certifications: Quality ISO 9001:2015, ESCO UNI CEI 11352:2014 and Safety ISO 45001:2018. During 2019 it also started the ISO 50.001:2018 (Efficient Energy Management) certification process.

New Photovoltaic acquisitions

It should be noted that during H2 2019, in line with the Business Plan, the Acea Group began operations in the photovoltaic market with the establishment of two new companies, Acea Solar for the development of greenfields and Acea Sun Capital for the acquisition of plants. As at 31 December 2019 there were 13 companies acquired for a total installed capacity of approximately 28 MW.

ENGINEERING AND SERVICES OPERATING SEGMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS FOR THE YEAR

Operating data	U.M.	31/12/2019	31/12/2018	Change	% Change
Technical-professional verification	Number of firms	349	226	123	54.4%
Worksite inspections	Number of inspections	12,481	11,270	1,211	10.7%
Safety Coordination	CSE Number	225	211	14	6.6%

Equity and financial results

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	79.0	74.1	4.9	6.6%
Costs	66.0	56.1	9.9	17.7%
EBITDA	13.0	18.0	(5.1)	(28.1)%
Operating profit/(loss) (EBIT)	10.5	15.5	(5.0)	(32.1)%
Average headcount	281	265	15	5.8%
Capex	1.8	1.6	0.2	13.6%
Net financial debt	6.7	(13.3)	20.0	(150.6)%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Engineering and Services Segment	13.0	18.0	(5.1)	(28.1)%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	1.2%	1.9%	(0.7 p.p.)	

The Segment closed 2019 with EBITDA of € 13.0 million, a decrease of € 5.0 million compared with the previous year, mainly attributable to **Acea Elabiori** (- € 5.8 million) as a result of the increase in service costs as well as the transfer of part of the business to ACE Ato 2, which took place during the first half of 2019, partly offset by **Ingegnerie Toscane** (+ 0.7 million). The Segment also includes the company **TWS** which recorded an EBITDA of € 0.6 million, in line with the previous year.

The first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower rentals for € 0.5 million.

The average workforce as at 31 December 2019 stood at 281 employees, an increase of 15 compared to 31 December 2018 attributable to **Acea Elabiori** (+ 27 employees) partly offset by **TWS** (- 11 employees). Investments amounted to € 1.8 million and mainly refer to the purchase of equipment for the Grottarossa laboratory by **Acea Elabiori** and investments in IT systems.

Net financial indebtedness as at 31 December 2019 was € 6.7 million, a worsening of € 20.0 million compared to 31 December 2018, mainly due to **Acea Elabiori**. The change is essentially due to the dynamics of operating cash flow. The first application of IFRS 16 contributed to the increase of financial debt by € 1.0 million.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

Acea Elabiori

Laboratory activities

The Acea Elabiori laboratory provides analytical services on different environmental matrices linked to the prescriptions of the reference laws.

In 2019, as part of the analytical activities carried out on water intended for human consumption, analytical services were performed on 12,359 samples and 455,071 analyses were carried out against the 451,365 analyses for 2018. With reference to the checks carried out for wastewater (sewage and treatment systems managed by Group Acea), 12,608 samples were analysed for a total of 251,132 analyses (10,719 samples and 179,197 analyses in 2018).

Engineering activities

Acea Elabiori supplies engineering services to the companies in the Water Segment, in particular Acea Ato 2 and Acea Ato 5.

In recent years, the company has consolidated the development of engineering activities in other Energy Infrastructure and Environment Segments of Acea SpA as well, with the design and direction of works for the valorisation of waste and the production of hydroelectric and thermoelectric energy and related “specialist and support” activities.

Also relevant is the Company’s commitment to the Environmental Impact Study drawn up on behalf of Acea Ato 5 to obtain, through the EIA procedure, an environmental compatibility assessment of the upgrading and adaptation of the “La Moletta” purification plant in the Municipality of Veroli.

In 2019, the design of the remediation/extension of the water and sewerage networks on behalf of Acea Ato 2 was also developed to support the activities planned under the Single Network Maintenance Contract.

Research and innovation activities

Acea Elabiori carries out research and innovation in the water, environmental and energy sectors and develops technical consulting and applied research projects for the companies of the Acea Group, aimed at technological-digital innovation, process optimisation and recovery of materials and energy with a focus on the circular economy and sustainable management, also making use of framework agreements with the scientific community and national and EU funded programmes.

During the year the Unit’s mission was revisited following the consolidation of the District Metering and Leak Search (internalised in April 2019 by Acea Ato 2 and Acea Ato 5) and the transfer of activities, now consolidated in the methodological application approaches (functional verification modelling and hydrogeological studies), which have become an integral part of the specialised services provided by Acea Elabiori in the field of network and plant design.

Finally, the ACEASmartComp Project was prepared with the invaluable support of the University of Tuscia and Enea, targeting the logic of the Waste Transition and proposing a new model of organic waste management, from large plants to diffuse waste management. The development of the project, which will make the Company Organic Waste Free as early as 2020 and allow it to patent the system that will then be industrialised, has required extensive development and involved internal and external expertise from many different areas.

TWS

The main activity of the Company is the construction and renovation of works instrumental to the operation of the Integrated Water Service and in particular of water treatment plants – drinking and waste water – as well as design and engineering services related to the activities of plant construction.

In 2019 work continued on the construction contracts acquired on the market prior to the Company’s entry into the Acea Group and at the same time the gradual implementation of works for the companies of the Group – specifically Acea Ato 2.

Intra-group activities constitute the new mission of the Company’s business, as it can acquire orders from the market to an extent not exceeding 20%, in accordance with regulatory requirements.

Based on the Framework Agreement with Acea Ato 2, a number of orders continued to arrive in 2019 resulting from the identification of occasions when TWS’s specific expertise could be useful for solving management problems.

In particular, tasks have been formalised with respect to a particular need of Acea Ato 2, namely to analyse, design and implement the restructuring of treatment plants, in particular for the acquisition of the Water Service from Municipalities. These plants are sometimes in critical situations, and it is therefore necessary to carry out an assessment to identify and implement the best solutions capable of restoring conditions of purification effectiveness and management efficiency in the generally tight schedules agreed to with the Municipalities in charge at the time of acquisition.

Ingegnerie Toscane

The main activity of the Company is the conception and development of projects aimed at the completion of works, understood in the traditional sense of the term: “design, construction supervision, safety coordination, etc.”.

These activities are complemented by advanced engineering services, carried out in close relationship with the employees of the companies that manage the operational functions of the water service, developing and expanding on the knowledge acquired during management to create the conditions for inspiring innovation in the water sector. In this sense it can be said that the added value of the conception and implementation of a work (or of a new strategy) lies precisely in the extensive knowledge of functional and operational problems that cannot be separated from a strong “working” link between the technicians and the Water Service Operators. 2019 saw a strengthening of the traditional engineering services (design, supervision and safety coordination in the design and execution phases of the works) which will presumably assume greater weight within the services provided by the Company, also as a result of the greater investments of the companies managing the Integrated Water Service, which are the main clients of the works design.

CORPORATE

OPERATING RESULTS AND FINANCIAL POSITION FOR THE YEAR

Operating results and financial position

€ million	31/12/2019	31/12/2018	Change	% Change
Revenues	142.6	129.5	13.1	10.1%
Costs	148.1	164.4	(16.3)	(9.9)%
EBITDA	(5.6)	(34.9)	29.4	(84.1)%
Operating profit/(loss) (EBIT)	(29.4)	(6.6)	(22.8)	n.s.
Average headcount	668	663	5	0.8%
Capex	21.7	10.0	11.7	116.3%
Net financial debt	250.4	236.4	14.0	5.9%

EBITDA

€ million	31/12/2019	31/12/2018	Change	% Change
EBITDA – Corporate Segment	(5.6)	(34.9)	29.4	(84.1)%
EBITDA – Group	1,042.3	933.2	109.1	11.7%
Percentage weight	(0.5)%	(3.7)%	3.2 p.p.	

Corporate closed 2019 with a negative EBITDA of € 5.6 million (+ € 29.4 million compared to 31 December 2018). The variation is due to the combined effect of several phenomena: 1) the recognition of out-of-period income of € 16.2 million as a result of the decision of the Regional Administrative Court to annul the fine imposed by the AGCM served on 8 January 2019 and against which an appeal was filed and which in 2018 was among the costs; 2) the reduction in operating costs for Information Technology, 3) the increase in personnel costs only partially offset by higher capitalisation. Moreover, the first application of IFRS 16 resulted in a benefit to EBITDA in terms of lower rentals for € 4.8 million.

The average workforce at 31 December 2019 stood at 668 and was slightly up compared to the previous year (663 employees).

Investments amounted to € 21.7 million and, compared to 2018 increased by € 11.7 million. Investments mainly refer to IT developments and investments in the company offices.

Net debt at 31 December 2019 amounted to € 250.4 million, a drop of € 14.0 million compared to the closure of 2018. The worsening of financial indebtedness was affected by the payment made to Acea International to finance the further purchase of shares in Consorzio Agua Azul for € 8.7 million, the acquisition of the equity investment in Pescara Distribuzione Gas, the remainder of the 2018 dividends not yet paid for € 77.1 million and the first-time applica-

tion of IFRS 16 which generated a decrease of € 16.0 million. Net financial indebtedness also derived from the requirements generated by changes in working capital.

SIGNIFICANT EVENTS FOR THE 2019 FINANCIAL YEAR

Acea and the companies Alma C.I.S. Srl and Mediterranea Energia Soc. Cons.a.r.l., having obtained approval from the Municipality of Pescara, on 18 March 2019, completed Acea's acquisition of 51% of the share capital of the company Pescara Distribuzione Gas Srl, a business engaged in the distribution of methane gas in the Municipality of Pescara.

It should also be noted that on 25 June 2019 with start date of 4 July 2019 Acea set up Acea Innovation Srl, which has the objective of researching innovations and start-ups to start experimental projects in order to apply innovative ideas to real cases, together with Group companies, as well as some collaborative initiatives in funded projects.

Finally, it should be noted that on 17 October the Lazio Regional Administrative Court definitively ruled on the appeal filed by Acea concerning the fine of € 16.2 million imposed for anti-competitive conduct in the electricity sales market, thereby completely annulling the penalty measure.

SIGNIFICANT FACTS OCCURRING DURING THE REPORTING PERIOD

Acea SpA AGCM Antitrust Authority Order – Proceeding no. A 513

On 8 January 2019, the Acea Group was notified of an order of the Italian Antitrust Authority with an administrative fine of € 16.2 million against Acea SpA, Acea Energia SpA and areti SpA, jointly and severally among them, with reference to proceeding no. A 513 for abuse of a dominant position in the electricity sales market, which the Acea Group challenged at the Lazio administrative court.

Acea SpA Completion of the acquisition of 51% of the share capital of the company – Pescara Distribuzione Gas

On 18 March 2019 Acea and the companies Alma C.I.S. Srl and Mediterranea Energia Soc. Cons.a rl, having obtained approval from the Municipality of Pescara, completed Acea's acquisition of 51% of the share capital of Pescara Distribuzione Gas Srl, a business engaged in the distribution of methane gas in the Municipality of Pescara.

Acea SpA The Board of Directors approves the 2019-2022 Business Plan

On 2 April the Board of Directors approved the 2019-2022 Business Plan.

Acea SpA The Shareholders' Meeting of Acea approves the Financial Statements as at 31 December 2018 and approves the payment of a dividend of € 0.71 per share. Appointment of the Board of Statutory Auditors and a Director

On 17 April 2019 the Acea SpA Shareholders' Meeting approved the Financial statements and presented the Consolidated financial statements at 31 December 2018.

The Shareholders' Meeting also appointed the new Board of Statutory Auditors, defining the fees of the same. The members of the new Board of Statutory Auditors are Maurizio Lauri, Chairman, and Pina Murè and Maria Francesca Talamonti as standing auditors. The Shareholders' Meeting also appointed the lawyer Maria Verberna Sterpetti to the Board of Directors.

Acea SpA Successful placement of a non-convertible bond issued under the EMTN Programme for a total of € 500 million over 9 years

Following the Board of Directors' resolution of 6 May 2019 and the completion of bookbuilding, on 16 May 2019 Acea SpA successfully completed the placement of a non-convertible bond loan for a total principal amount of € 500 million, maturing on 23 May 2028 and at a rate of 1.75%, under the € 3.0 billion Euro Medium Term Notes (EMTN) programme, with the Base Prospectus as last amended on 18 July 2018 and subsequently supplemented on 15 May 2019 (the "Bonds"). The Bonds are intended exclusively for institutional investors in the Euromarket. The issue was successful, receiving requests equal to 3.75 times the amount of the Bonds offered, by investors of primary rank and representative of many geographical areas.

Acea SpA Fitch Ratings confirms Acea's "BBB+" rating and "stable" outlook

On 16 May 2019 Fitch Ratings confirmed its Long-Term Issuer Default Rating (IDR) for Acea of "BBB+" with "Stable" outlook, and the Short-Term IDR of "F2". The Long-Term Senior Unse-

cured Rating of "BBB+" was also confirmed. The opinion reflects Acea's strategic focus on regulated activities and the positive results achieved to this point.

Acea enters the plastics treatment sector

On 4 July 2019 Acea SpA, through its subsidiary Acea Ambiente, finalised an agreement with DE.CO.RO. srl, a company of the Dentis Recycling srl Group, for the acquisition of 90% of the share capital held in the company Demap srl, owner of a plastic treatment plant with an authorised capacity of 75,000 tonnes per year. The plant is located in the province of Turin and affiliated with the Corepla Consortium, and since 2004 has been engaged in sorting and recycling plastic and plastic/metal packaging from separate urban waste collection, particularly in Valle d'Aosta and Piedmont.

Acea SpA Update of the EMTN Programme Ceiling

On 15 July 2019, Acea SpA completed the update of its Euro Medium Term Note Programme (EMTN) of bond issues, filed with the Luxembourg Stock Exchange and reserved for institutional investors. With this update Acea SpA increased the ceiling of the Programme up to € 4 billion, signing the documentation with 15 dealer banks.

Acea SpA The Acea Group returns to growth in the renewable energy market – acquires photovoltaic plants with an installed capacity of 25MWp

During the month of July, Acea completed acquisitions of photovoltaic plants incentivised by the Feed-in tariff for a total installed capacity of approximately 25 MWp, reaching 50% of the plan target ahead of schedule.

The operations have an Enterprise Value of approximately € 75 million and will contribute to an increase in the Group's EBITDA of approximately € 11 million on an annual basis.

The most significant portfolio refers to the acquisition of 65% of the share capital of seven vehicle companies owning 18 photovoltaic plants, with a total installed capacity of about 20MWp, owned by the Belenergia Group. The other photovoltaic systems will be acquired 100%.

Acea Group – Gori financing

On 23 July 2019, the structured long-term financing operation of € 80 million in favour of the subsidiary Gori, a company of the Acea Group, was successfully concluded. The loan, granted by UBI Banca, Intesa Sanpaolo, MPS Capital Services Banca per le Imprese, Banco BPM, Banca del Mezzogiorno – MedioCredito Centrale, Banca di Credito Popolare di Torre del Greco and Banca IMI as agent, together with the loan of € 20 million granted by the Parent Acea, represents the most important project-based structured finance operation in the integrated water service sector in Campania.

Acea SpA Moody's confirms Acea's "Baa2" rating and "stable" outlook

On 9 August 2019 Moody's Investors Service confirmed Acea's "Baa2" Long-Term Issuer Rating and the Senior Unsecured Rating. Moody's also confirmed the "(P)Baa2" rating of Acea's EMTN Programme. The outlook remains "stable". The rating agency's opinion reflects the positive results achieved by Acea and the Group's strategic focus on regulated activities.

Acea SpA AdF: modification of the by-laws and of the shareholders' agreements

On 7 October 2019 the Shareholders' Meeting of the AdF, a company that manages the integrated water service of 55 Municipalities in the provinces of Grosseto and Siena (together making up Ato 6 "Ombrone") and 40% owned by Acea, approved the amendment to the company's by-laws and shareholders' agreements, which will therefore make it possible to consolidate the company on a line-by-line basis, which until now had been consolidated within the scope of the Acea Group at the level of shareholders' equity. The Meeting's decision is part of a positive context of industrial collaboration between Acea and the institutions representing the territories the AdF operates in, with a focus on growth and sustainable development.

Acea SpA: New investment in the circular economy

On 10 October 2019 one of the largest composting plants with anaerobic digestion, treatment of organic waste and production of biogas in Central Italy was inaugurated.

The plant, located in Monterotondo Marittimo in the province of Grosseto, took about two years to build and has an authorised capacity for the treatment of 70,000 tonnes of waste per year, for a total annual electricity production of about 6 GWh. The investment was approximately € 22 million, with an expected contribution to EBITDA on an annual basis of approximately € 2.5 million. Equipped with the most advanced technologies on the market, the plant will provide significant environmental benefits including less

organic waste in landfills as it is instead transformed into fertilisers useful for agriculture (compost) and the production of electricity from renewable sources through the energy exploitation of biogas produced by the process of anaerobic waste digestion.

Acea SpA: Regional Administrative Court of Lazio cancels antitrust fine of € 16 million

On 17 October 2019 two separate sentences were published, referring respectively to the appeals filed by the companies Acea SpA, Acea Energia SpA and areti SpA, by which the Lazio Regional Administrative Court completely annulled the fine of € 16.2 million imposed jointly and severally on the aforementioned companies by the Antitrust Authority (AGCM), by order no. 27496 of 20 December 2018, which referred to alleged anti-competitive conduct in the electricity sales market.

Acea SpA Resignation and co-optation of new Acea SpA director

On 11 December 2019 the Board of Directors of Acea SpA took note of the resignation of Mr Fabrice Rossignol from the position of Director for professional reasons.

On the recommendation of the Appointments and Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, the Board of Directors co-opted Ms Diane Galbe, a new director to replace the resigning director pursuant to art. 2386 of the Italian Civil Code and art. 15, paragraph 3 of the by-laws, as the first of the unelected candidates on the same list.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

Acea SpA Successfully placed a nine-year € 500 million bond issued under the EMTN Programme

Following the Board of Directors' resolution of 22 January 2020 and the completion of bookbuilding, on 29 January 2020 it successfully completed the placement of a non-convertible bond loan for a total principal amount of € 500 million, maturing on 6 April 2029 and at a rate of 0.50%, under the € 4 billion Euro Medium Term Notes (EMTN) programme, with the Base Prospectus as last updated on 15 July 2019 and subsequently supplemented on 27 January 2020 (the "Bonds").

The Bonds are intended exclusively for institutional investors in the Euromerket. The issue was successful, receiving requests equal to about 3 times the amount of the Bonds offered, by investors of primary rank and representative of many geographical areas.

The Bonds have a minimum unit denomination of € 100,000 and have been placed at an issue price of 99.20%, which implies a yield of 0.59%. The Bonds are governed by English law. The settlement date was set at 6 February 2020. From that date the Bonds will be listed on the regulated market of the Luxembourg Stock Exchange, where the prospectus was filed.

The proceeds from the issue of the Bonds will be used to finance the Company's ordinary activities, as well as to support the investments envisaged in the business plan for the three-year period 2020-2022.

Covid-19

The international health emergency caused by Covid-19, commonly referred to as "Coronavirus", emerged suddenly after 31 December 2019 and only recently the World Health Organisation has declared the existence of an international emergency.

This has led the Italian government in particular to put in place a series of provisions that are both restrictive and of an emergency economic nature, the duration of which is impossible to predict at this time. In view of the circumstances, it is impossible to calculate the real impact these measures will have on the economy and the Group itself.

However, in view of the fact that the characteristics of the businesses managed by the Acea Group, 81% of whose EBITDA is generated by regulated activities, and in light of the chronology of events and news after the balance sheet date, the regulatory areas governing the Acea Group's businesses have not changed significantly due to the aforementioned health emergency.

However, it is believed that cash inflows may decline in the short and medium term, although it is hoped that equalisation mechanisms will be put in place to support the customer segments most exposed to the effects of the emergency.

In accordance with IAS 10, the potential impacts that could affect the quality of receivables as a result of the aforementioned possible reduction in collections are considered events pertaining to the following year, and therefore have not been reflected in the valuations when preparing the 2019 Financial Statements.

With regard to the financial impact both in the short and medium term, there are no significant uncertainties for the Acea Group in dealing with the "coronavirus" emergency and the effects that this could reasonably cause, also because of the company's ability to continue to operate as a going concern thanks to the Group's solid financial structure as at 31 December 2019, cash and cash equivalents of approximately € 836 million plus credit lines granted and unused of approximately € 628 million and the possibility of issuing a further € 1.4 billion of corporate bonds under the EMTN programme.

MAIN RISKS AND UNCERTAINTIES

Due to the nature of its business, the Group is exposed to various types of risks, in particular regulatory risks, risks from natural events and climatic variations, political/social and macroeconomic context risks, operational and environmental risks and financial market risks. In order to manage these risks, analyses and monitoring are carried out by each company as part of a structured and coordinated process implemented at a Group level through the integration of two complementary approaches (ERM and Continuous Risk Management), aimed at assessing and treating the risks of the entire organisation in an integrated logic, consistent with its risk appetite, with the aim of providing management with the information needed to make the most appropriate decisions to achieve strategic and business objectives, to safeguard, grow and create value for the company.

This combination is designed to ensure effective control of the entire universe of main risks the Group is potentially exposed to, guaranteeing management of the Group's overall exposure in line with the objectives of the Business Plan and Sustainability.

In order to contain these types of risks, the Group has implemented mitigation and monitoring as summarised below at both a corporate and industrial segment level.

For risk mitigation long ago the Acea Group introduced the development and adoption of a Group Insurance Plan based on the following pillars:

- *Third Party Liability*
- *Property Damage*
- *Employee benefits*

The first two pillars transfer the economic and/or asset risk deriving from civil liability – in all its general, professional, environmental and cyber forms – and from events (accidental, culpable or malicious) affecting the Group's physical and production assets.

The third pillar, on the other hand, aside from transferring economic and financial risk, implements a corporate welfare measure guaranteeing and paying the employees of the Acea Group significant financial support – both to those directly concerned and to those who may be entitled – in case of serious traumatic events related to both the professional and private spheres.

Still on the subject of risk mitigation, most of the companies of the Acea Group have adopted and maintain an Integrated Quality, Environment, Safety and Energy Management System (hereinafter the "System"), which complies with UNI ISO 9001:2015 (Quality), UNI ISO 14001:2015 (Environment), BS OHSAS 18001:2007/UNI ISO 45001:2018 (Safety) and UNI ISO 50001:2018 (Energy), certified by an accredited external body, as a tool for the prevention of accidents, diseases and pollution, as well as a measure to promote and support the efficiency and effectiveness of the company's processes, including energy processes, and to achieve continuous improvement in the performance of the System itself and work management.

Note that, on the date of preparation of the current Management Report, we do not expect to be exposed to further risks and uncertainties that may have a significant impact on the results of the Acea Group's operations, equity or financial position, other than those mentioned in this document.

REGULATORY AND LEGISLATIVE RISKS

As is well known, the Acea Group operates mainly in regulated markets and the requirements and obligations that characterise them (as well as changes in the rules of operation of these markets) can significantly affect the results and performance of operations.

In particular, several Group companies manage the Integrated Water Service in their respective Territorial Areas, which is known to be a sector receiving an increasing level of attention from lawmakers and the Sector Authority (ARERA). The Group is therefore exposed to the evolution of the relevant legal/regulatory frameworks in the areas served. In this regard, note how the rules of territorial planning and governance of the Integrated Water Service continue to be subject to specific regulatory measures. In fact, two different bills have been drafted (AC 52, first signatory Hon. F. Daga, and AC 773, first signatory Hon. F. Braga) which, taking up previously proposed topics, intend to deal with the government and public management of the integrated water cycle in different ways. The two bills, whose examination was joint and declared urgent, are currently being examined by the Appointee of the Chamber's Environmental Commission.

Companies in the Environment Segment are also exposed to potential risks arising from changes in the legal framework following the forthcoming revision of the Environmental Consolidation Act, and in the regulatory framework following future measures of ARERA concerning the integrated waste cycle sector.

These risks are mitigated by careful monitoring of regulatory developments, interacting with the relevant bodies and participating in association and institutional meetings carried out by the competent business structures in synergy with the Group's organisational structures. These structures monitor regulatory developments in terms of providing support in the preparation of comments in the response to the Consultation Paper, in line with the interests of Group companies, and guidance for the consistent application of regulations in corporate procedures and within the electricity, gas, water and environment businesses.

The nature of the business also exposes the Acea Group to the risk of non-compliance with consumer protection regulations pursuant to Italian Legislative Decree no. 206/2005, i.e. the risk mainly connected to the commission of consumer offences/unfair trade practices or misleading advertising (through activities like omission of relevant information, dissemination of untrue information/forms of undue influence, unfair terms in commercial relations with consumers), as well as the risk of non-compliance with the regulations for the protection of competition, i.e. the risk associated mainly with the prohibition of companies to establish restrictive agreements and to abuse their dominant position in the market (through activities like market allocation, manipulation of tenders, restrictive agreements and other types of anti-competitive agreements, exchange of commercial/competitive information that potentially constitutes the creation of a cartel).

At the end of 2018 Acea adopted a specific Antitrust Compliance Programme and appointed a Holding Antitrust Officer. The main objective of the programme is to strengthen internal controls aimed at preventing the violation of regulations through the implementation of regulatory and organisational instruments, as well as through a more widespread dissemination of the culture of respect for the principles of fair competition and consumer rights. In 2019 the main Group companies adopted the Antitrust Compliance Programme in line with the indications of the Holding Company, and set up organisational structures in which Company Antitrust Officers were appointed, given the task of managing the activities to adapt the Programme to the individual companies and supervise its implementation and maintenance.

Regulatory risks also include all non-conformities, with particular regard to the environmental impact of Acea Group (generated for example by the activities of production and / or treatment of urban

waste and waste, and of health and safety). at work, mitigated through the adoption of certified management systems, respectively UNI EN ISO 14001:2015 and BS OHSAS 18001:2007), which may result in the application of administrative and / or criminal penalties, including those of a disqualifying nature.

Some newly introduced crimes expand the catalogue of predicate offences capable of activating the responsibility of the bodies pursuant to Italian Legislative Decree no. 231/2001, thus requiring an update of the organisational models. Specifically:

- on 18 December 2018 the new Anti-Corruption Law was passed (the so-called “Spazzacorrotti”), which introduced into Italian Legislative Decree no. 231 of 8 June 2001, paragraph 1 of art. 25 “Bribery and corruption, undue inducement to give or promise utilities” the crime of “Trafficking in illicit influences” (art. 346 bis of the Italian Criminal Code);
- law no. 39 of 3 May 2019 which, implementing in our system the Convention of the Council of Europe on the manipulation of sporting competitions signed in Magglingen on 18 September 2014, added to Italian Legislative Decree no. 231 of 8 June 2001 a new art. 25 quaterdecies “Fraud in sporting competitions, illegal gambling or betting and games of chance by means of prohibited devices”;
- law converting Italian Decree Law no. 105/2019 of 14 November 2019 containing “Urgent provisions on the subject of national cybernetic security perimeter” which amended art. 24-bis of Italian Legislative Decree no. 231/01 “Computer crimes and unlawful data processing” providing for the liability of the entity also for the crimes referred to in article 1, paragraph 11 of Italian Legislative Decree no. 105/2019;
- law converting Italian Decree Law no. 124/2019 of 17 December 2019 that came into force on 25 December 2019, which introduced among the predicate offences in Italian Legislative Decree no. 231/01 some tax offences.

As part of the general Group Whistleblowing Procedure aimed at regulating the system with which anyone can make voluntary and discreet whistleblowing reports, guaranteeing the confidentiality of the identity of the whistleblower and thus protecting him/her from any retaliation, the rules governing Whistleblowing relating to unlawful conduct have been updated, also pursuant to Italian Legislative Decree no. 231/2001 and/or violations of the 231 Model, expanding the possible channels of communication to include a specific IT platform soon to be adopted, accessible by everyone (employees, third parties, etc.) on the website of each Group Company, and by employees of the Italian Companies of the Group having access to the company’s Intranet.

The subsidiary Acea Ato 5 is involved in investigations and proceedings that relate to cases falling under Italian Legislative Decree no. 231/2001 regarding the environment and corporate crimes. In particular, with regard to corporate offences, case 2031/16 relates to financial years 2015, 2016 and 2017 and alleges that the crimes of accounting fraud and filing fraudulent financial statements were committed by the Chairmen of the Company and the representatives of the supervisory body of this company. Investigations are ongoing. It should be noted that some consolidated companies (mainly Acea Ato 5, Acea Ato 2 and Acea Ambiente), as more fully illustrated in the relative financial statements for the year, are subject to investigations or proceedings that relate to significant cases pursuant to Italian Legislative Decree no. 231/2001, mainly concerning safety and the environment. There is also a complaint for a corporate offence related to Acea Ato 5 alone. In particular, with regard to corporate offences, case 2031/16 relates to financial years 2015, 2016 and 2017 and alleges that the crimes of accounting fraud and filing fraudulent financial statements were committed by the Chairmen of the Company and the representatives of the supervisory body of this company. Investigations are ongoing. On the basis of the information currently available, taking into ac-

count the operational autonomy of the companies with respect to the parent company Acea, any responsibilities that may be ascertained upon the final outcome of the aforementioned proceedings are exclusively attributable to the companies themselves, without any repercussions on the Parent Company or other companies of the Group that are not involved.

It should be noted that some consolidated companies (Areti, Acea Ato 2, Acea Elabiori and Acea Ambiente), as more fully illustrated in the relative financial statements, are subject to investigations or proceedings that relate to significant cases pursuant to Italian Legislative Decree no. 231/2001 concerning safety and/or the environment. There are also complaints for corporate offences relating only to Acea Ato 5.

On the basis of the information currently available, taking into account the operational autonomy of the companies with respect to the parent company Acea, any responsibilities that may be ascertained upon the final outcome of the aforementioned proceedings are exclusively attributable to the companies themselves, without any repercussions on the Parent Company or other companies of the Group that are not involved.

Finally, other additional regulatory risks that may potentially be of particular relevance for the Acea Group include those arising from the Privacy Regulation (EU) 2016/679 GDPR.

The Acea Group’s compliance programme has made it possible to define and implement a Privacy Governance Model that is valid for the Group, taking the Parent Company as a privileged area of observation in its role as the linchpin of the system and supplier of services and/or centralised activities, looking at the Companies with a logic of priority at the core processes of each business area. The online training programme offered using an e-learning platform that was successfully implemented in the previous period for the Parent Company has been extended to the Companies to provide a first layer of compliance with the obligation for Data Controllers to instruct data processing personnel, providing them with training on individual corporate processes as well as a particular focus on cross-cutting procedures (HR, Legal, etc.).

Corporate working groups have been set up to customise the Group Model in the individual companies, with effects on the implementation and/or fine-tuning of processes having a high impact on privacy, and initiatives have also been carried out to test compliance solutions already adopted.

No computer incidents have been reported affecting the personal data held by Group companies during the period 2018-2019.

OPERATING AND ENVIRONMENTAL RISKS

The management of the Integrated Water Service – the entire cycle of drinking water and wastewater from the capture of the natural resource to its return to the environment – requires the respective Group companies comply with specific conventions and manage water infrastructure that is spread throughout the region for the supply and distribution of drinking water and sewerage networks and plants, ensuring the continuity and quality of the service provided.

Some of the uncertainty that the Group must deal with includes possible impacts deriving from unpredictable natural phenomena (e.g. earthquakes, floods and landslides) and/or from cyclical or permanent climatic variations. These risks are addressed through the implementation of structured tools for the governance of water dynamics (e.g. Water Safety Plan) as well as specific projects to increase the resilience of the infrastructure in the various regions. Finally, it should be noted that the residual portion of risks from natural events is covered by the Group’s insurance programme.

The Water Segment Companies offering Integrated Water Services implement programmes, procedures and controls in order to ensure adequate HSE compliance monitoring by virtue of the very

characteristics of the business managed (potential breach of drinking water limits due to source pollution, potential breach of treated wastewater discharge limits in receiving bodies, occupational health and safety, characterisation and compliance of outgoing waste, etc.).

Acea Ato 2 – critical situations concerning irregular discharges

The Operating Agreement signed officially ratified the obligation to transfer the integrated water services of Municipalities in Ato 2 (except for protected services and, subsequently, on the basis of art. 148, paragraph 5 of Italian Legislative Decree no. 152 of 3 April 2006, also Municipalities with up to 1,000 residents, which have the right to not subscribe to the I.W.S.) in accordance with the law. In reality the times and procedures for the implementation of said transfer were not observed both due to the unwillingness of some Municipal Authorities to transfer the Service, and as it was impossible for the Operator, in particular from 2007, to take over the management of water, sewerage and wastewater treatment plants that did not comply with the provisions of the laws in force to avoid exposing both the Operator and its executives to the consequent criminal charges applied by the magistracy.

The most critical situations in fact are discharges that are still not treated and/or existing waste treatment plants that must be re-qualified and/or upgraded to meet the new emissions limits set by the Supervisory and Control Authorities as a result of a different evaluation of the hydrological structure of receiving water courses, or even the nature of the receiving system (soil instead of water) as some wastewater treatment plants discharged onto soil as the water course was dry when inspected. The uncertainty of this situation is due to the fact that the Lazio Region has not yet determined the classification of the regional surface hydrographic network.

The situation of a real environmental emergency also required interventions of an institutional nature. In fact, in 2008 the Regional Authority signed a “Memorandum of understanding for the implementation of extraordinary reclamation of river, lake and sea resources to solve the discharge emergency in Ato 2 – Central Lazio – Rome” to allocate specific funds for the implementation of some plans of action to deal with the emergency.

Today, thanks to a noteworthy technical development and economic commitment, 184 of the 246 discharges surveyed have been collected for water treatment. There are still 62 discharges active, of which 35 of Acea Ato 2 and 26 of the Municipal Administrations. Of the latter, 15 discharges were restored with interventions that were subsequently requested of the Manager.

During the first few months of 2018, in the light of ARERA Resolution 918/17, the update of the 2018-2019 Works Programme has been drafted with indications until the end of the concession (2032). This Programme is part of the documentation underlying the tariff application, adopted by Resolution no. 3-18 of 15 October 2018 by the Conference of Mayors and approved by Resolution no. 572/2018/R/idr of 13 November 2018, by ARERA.

In the first years, from 2003 on, investments financed by the tariff were made for annual amounts in growth (from € 30 to € 70 million), which in the Integrated Water Service implementation phase discounted the lack of knowledge of the plants being acquired from the Municipalities and the need to draw up a plan aimed at solving the most critical problems, especially in the hygienic-sanitary sector. The time frames resulting from this design and the authorisations necessary for the construction of the works have delayed the performance of investments in the region.

In the following years the investments made went from € 141 million in 2014 to € 189 million in 2015, to € 225 million in 2016 and € 232 million in 2017 and about 279 in 2018, all values net of write-downs and disposals, almost doubling the value per inhabitant served by around € 36/inhabitant to about € 60/inhabitant, and in fact recovering the gap of previous years by making greater investments than those planned in the previous Plans.

As a result of a process of technological renewal and the implementation of the design activities developed in previous years, it has been possible to increase the production of investments for the construction of new large works. With regard to the difficulties related to the authorisation phase of the projects and the declaration of public utility by the Municipalities and in particular the Municipality of Rome and the consequent infrastructure procedures aimed at acquiring the areas necessary for the works, an effort was made with the Conference of Mayors resolution no. 2-17 of 20 December 2017 with which the power to approve the projects and concurrent declaration of a single opinion on the works in the works programme and to organise the Service Conferences necessary was delegated to the Operational Technical Secretariat.

Acea Ato 2 – critical elements of the drinking water system

From 2002 to date, the flow supplied by the aqueducts of Scheme 66 that supplies Roma Capitale to the Municipalities of the metropolitan area of Roma Capitale has increased from less than 300 to about 2,600 l/s. This increase in distribution was necessary to overcome emergencies, especially qualitative ones, and drastically reduced the reserves available to Roma Capitale and the Municipalities themselves.

Two critical elements emerged and continue to emerge following the acquisition of the Integrated Water Service:

- quality of the water flowing out of the source;
- water shortage mainly in the South of Rome.

With respect most importantly to the **first critical issue**, the qualitative crisis caused by the presence in the territory of water sources that do not comply with the chemical parameters such as those for arsenic and fluorine, which are naturally found in underground water sources of volcanic origin, with the consequent critical situation in terms of the quantity and quality of the water supplied (Municipalities in the district of Castelli Romani and in general those in the volcanic areas of the Ato with over 170,000 inhabitants in fourteen Municipalities), resulted in the Company having to draw up restoration plans to put into action to meet the parameters of Italian Legislative Decree no. 31/2001 as implemented in subsequent investment plans of the Area Plan.

To this end, interventions were planned and implemented:

- replacement of the local qualitatively critical sources with sources characterised by better qualitative properties;
- mixing water sources free of undesired elements;
- construction of drinking water plants using reverse osmosis filtration technology.

As for the **second critical element**, in other words the water shortage mainly affecting the Colli Albani area, which is supplied by the Simbrivio aqueduct, the Doganella aqueduct and over 140 local wells, over the years various interventions have attempted to mitigate this critical situation, such as taking a branch off the Pertuso spring, putting new plants into service, the Arcinazzo tank and the Ceraso “booster” plant, the new VIII lift siphon in the Municipality of Frascati.

These interventions have made it possible to increase the mixing capacity of low-quality sources and to guarantee a savings in the resources coming from the Doganella aqueduct, which due to its structure is limited in scope.

With regard to the water shortages in the area north of the province of Rome, during the year 2019 the Mignone aqueduct was acquired under management with the purification plant that derives from the Mignone River. This plant underwent major restructuring in 2019 that will continue in 2020, which will ensure both an increase in the flow rate and an improvement in the quality of the water.

Concurrently, work is under way to connect the municipal networks of Allumiere and Tolfa in order to increase their capacity during the summer.

It should also be noted that during 2019 important reclamation

work was carried out on the water network, involving a total of approximately 90 km.

Lastly, it should be noted that in 2019 the only new addition to the company's portfolio was the water service of Percile.

COMMERCIAL AND TRADING SEGMENT

With regard to the Commercial and Trading Segment, the main operational risks associated with Acea Energia's activities in the deregulated electric power and natural gas markets are the risk of a possible progressive concentration of operators in these markets, with an impact on the Company's customer base growth plans and its positioning.

There is also a risk connected with the extension of the Protected Service and the definition of the procedures for its closure, which could affect company strategies.

In order to ensure the success of the development initiatives envisaged in the Business Plan, the Segment companies have launched change management projects, mitigating the risks associated with the non-involvement of all personnel (staff and line personnel, managers and others).

Acea Energia also has typical business risks deriving from an efficient and effective management of billing and credit recovery processes, where it is affected by the sub-optimal performance of electricity and gas distributors.

Information about commodity price risk and the control tools adopted is provided in the "Financial Market Risk" section of this Report.

ENERGY INFRASTRUCTURE SEGMENT

Potential sources of risk referable to the Companies of the Energy Infrastructure Segment derive from the implementation of the development plans of the 2019-2022 Business Plan (fibre optics project, 2G smart metering project, resilience plan of the distribution network, growth in the photovoltaic sector through M&A and the construction of plants), and the monitoring of information security and systems.

With regard to plant safety, the Companies operate by implementing protocols, procedures and controls in accordance with the provisions of current regulations and in full collaboration with the relevant Authorities and Institutions.

With regard to the continuity of service, in addition to the aforementioned development plans, areti has implemented specific initiatives relating to the Public Lighting service provided in the Municipality of Rome, such as plans to modernise and reclaim the network.

As far as cyber security is concerned, areti is implementing all the necessary actions to align its cyber security posture with the main national and international industry standards. Technological and organisational measures are being implemented with the aim of:

1. managing the threats to the organisation's network infrastructure and information systems in order to ensure a level of security appropriate to the existing risk;
2. preventing accidents and minimising their impact on the security of the network and information systems used to provide services, so as to ensure their continuity.

In general, the main risks falling within this Industrial Segment (which includes, in addition to areti, Acea Produzione, Ecogena, ALL and the new photovoltaic company) can be classified as follows:

- risks relating to the effectiveness of the **investments** for the replacement/renewal of grids, in terms of expected effects on the improvement of service continuity indicators;
- risks relating to the **quality**, reliability and duration of works;
- risks relating to the ability to **meet the terms** for obtaining prescribed authorisations, regarding both the construction and start-up of plants (pursuant to Regional Law 42/90 and relat-

ed regulations) and performing work (authorisations of Municipalities and other similar authorisations), according to the need to develop and enhance the plants;

- risks related to **production failure**.

The risk relating to the effectiveness of **investments** basically stems from the increasingly stringent ARERA service continuity regulations. To deal with this risk, areti has strengthened the tools for analysing network performance in order to make increasingly better use of capital expenditure (e.g. ORBT project) and applied new technologies (automation of medium voltage network, smart grids, etc.).

As far as the risk linked to **work quality** is concerned, areti implemented operational, technical and quality control systems, including the creation of the Worksite Inspection Unit, which forms part of the Quality and Safety department. The results of the inspections, which are processed electronically and statistically analysed, give rise to rankings (reputational indicators) and a "vendor rating" system, developed in collaboration with the University of Tor Vergata (Rome). This system ranks contractors according to their reputation, scored on the basis of their ability to meet the quality and safety standards for worksites.

The good level in the reputation indicator was confirmed for companies that worked for areti.

The risk relating to the ability to **meet deadlines** arises from the number of entities that have to be addressed in the authorisation procedures and from the considerable uncertainty linked to the response times of these entities; the risk lies in the possibility of refusals and/or in the technical conditions set by the above entities (such as the construction of underground rather than above-ground plants, with a subsequent increase in plant and operating costs). It should also be noted that lengthy proceedings result in higher operating costs, are difficult to deal with for operating structures (drafting and presentation of in-depth project examinations, environmental studies, etc.) and require participation in service conferences with technical meetings at the competent offices. However, the substantial risk is still essentially linked to the failure to obtain authorisations, with the result being the inability to upgrade plants and the subsequent greater risk linked to the technical performances of the service (at present there are delays in upgrading the HV network in the coastal area and the Terna procedure to construct a new Castel di Leva primary substation). Note that a particularly critical point is the long response times of a number of the administrations contacted.

With regard to the risk of **non-production** of the plants, Acea Produzione has taken steps from the beginning of the activities to sign with primary insurance companies policies to limit any damage caused by the lack of production.

Finally, areti has adequately mitigated the risk to "typical" business areas like the integrity of its assets, adequate health and safety at work and its exposure to counterparties such as key suppliers and significant debtors and end customers for the technical services rendered.

ENVIRONMENT SEGMENT

The waste treatment plants are highly complex from a technical point of view, requiring the companies to employ qualified personnel and adopt organisational structures with a high level of know-how. They and their activities are parametrised to specific characteristics of the waste. The failure of incoming material to meet the necessary specifications could lead to concrete operational problems, sufficient to compromise the operational continuity of the plants and give rise to risks of a legal nature. For this reason, specific procedures have been adopted for monitoring and controlling incoming materials via spot checks and the analysis of samples pursuant to legislation in force.

The risk of waste produced not being delivered downstream in the

value chain is particularly significant and has an impact on business continuity. Acea Ambiente uses tendering procedures to stimulate the opening of the market. Furthermore, the Segment Companies implement programmes, procedures and controls to ensure adequate HSE compliance monitoring by virtue of the very characteristics of the business managed (CO₂ emissions, exceeding exhaust emission limits, health and safety at work, non-compliance of incoming waste, etc.).

The Terni and San Vittore del Lazio plants were involved in optimisation and revamping projects that typically present risks related to the construction of complex industrial infrastructure (construction and performance defects).

The Orvieto plant recently completed an important redevelopment of the recovery processes for composting and is currently undergoing a project to expand it, while the Latina plants (recently built), Monterotondo Marittimo and Sabaudia are affected by important interventions of expansion and redevelopment.

With regard to the management phase, the possible discontinuity of the waste-to-energy activities carried out in the Terni and San Vittore del Lazio plants and the waste treatment activities carried out by the other plants, if connected to the production of electricity under CIP 6/92 and the performance of services of public importance, could lead to significant negative effects.

This, both from an economic point of view and with respect to responsibility towards public and private suppliers. In this context, therefore, where not planned, a plant shutdown creates a concrete risk of failure to achieve the objectives of the industrial activity.

The waste-to-energy plants, as well as waste treatment plants to a lesser extent, are characterised by a high level of technical complexity, which requires the management of qualified resources and organisational structures with a high level of know-how. Therefore, there are specific risks with regard to the continuity of technical performance of the plants, as well as connected to the possible exodus of professional skills (not easily available on the market) having specific managerial skills in this area.

These risks have been mitigated by implementing specific maintenance and management programmes and protocols, drawn up partly on the basis of the experience acquired in plant management.

Moreover, the plants and the related activities are designed to handle certain types of waste. The failure of incoming material to meet the necessary specifications could lead to concrete operational problems, sufficient to compromise the operational continuity of the plants and give rise to risks of a legal nature.

For this reason, specific procedures have been adopted for monitoring and controlling incoming materials via spot checks and the analysis of samples pursuant to legislation in force.

MARKET RISK

The Group is exposed to various market risks with particular reference to the risk of price/volume oscillations for commodities being bought and sold, interest rate risks and foreign exchange risks to a lesser extent. To reduce exposure to within the defined limits, the Group enters into contracts drawn up on the basis of the typologies offered by the market.

The **Market Risk** is the risk concerning the unexpected effects on the value of the portfolio of assets due to changes to the market conditions.

In this context, reference is made to the Price Risk and Volume Risk cases as defined:

- **Price Risk:** risk linked to the change in commodities prices due to the difference in the price indices for purchases and sales of Electricity, Natural Gas and EUA Environmental Certificates;
- **Volume Risk:** the risk linked to changes in the volumes effectively consumed by clients compared to the volumes envis-

aged in the sales contracts (sale profile) or, in general, the balancing of positions in the portfolios.

Political, social and macroeconomic context risk

In providing services to its customers, the Acea Group is very attentive to the expectations and choices of its institutional, regional and central counterparts. On the other hand, most of its activities are in any case sensitive to the economic and structural dynamics experienced by the economic and productive fabric of the respective regions.

In this sense, the main factors influencing the Group's performance include changes in the political, social and macroeconomic context of reference. These uncertainties can have an impact on the implementation of investments, even major works, whose timing can be influenced by changes in government structures at both a central and local level.

With regard to the development initiatives envisaged in the Business Plan in the Environment Segment (growth through M&A and construction of greenfield plants), there is a risk deriving from the failure of the competent authorities to issue permits.

The Group has historically focused on guaranteeing levels of excellence in the technical and commercial quality of the services provided, including through dialogue models that are increasingly attentive to the needs expressed by its stakeholders in order to put in place virtuous dynamics in relations with its customers, also with regard to payment habits. In this regard, it should be noted that the Group is also subject to the risk of deterioration of its credit positions, particularly in connection with the provision of the Integrated Water Service, with consequences on the exposure of working capital. This risk is managed proactively by the relevant structures of the individual companies, applying specific Group Credit Policies and with the support of the Parent Company's relevant organisational structures.

Information Technology risks

For years now Acea has followed a development path focused on the use of new technologies as a driving force for the operational efficiency, safety and resilience of its industrial assets. The main business processes are now all supported by the use of advanced information systems, implemented and managed by the Group's centralised departments to support the operations of the various companies. In this sense, the Group is therefore exposed to the risks of the adequacy of the IT infrastructure to the current or future needs of the various businesses, as well as to the risks of unauthorised access to the data processed using IT procedures, with or without intent, and in any case inappropriate or not in compliance with current regulations. Acea manages these risks with the utmost attention through specific corporate compliance structures coordinated by specialised Group safeguards.

Commodity price risk

Through the activities carried out by the Commodity Risk Control Unit of the Finance Unit within the Administration, Finance and Control department, Acea SpA ensures the analysis and measurement of exposure to market risks, interacting with the Energy Management Unit of Acea Energia SpA, verifying compliance with the limits and criteria adopted by the General Risk Management of the Commercial and Trading Industrial Segment and by the Administration, Finance and Control Department in line with the Acea SpA's "Guidelines for the Internal Control and Risk Management System" and the specific procedures approved in 2019.

The analysis and management of risks is carried out according to a second-level control process that involves the execution of activities throughout the year with different frequency by type of limit (annual, monthly and daily), carried out by the Commodity Risk Control Unit and by risk owners. Specifically:

- **every year**, the measures of the risk indicators, i.e. the limits in

force, must be reviewed and respected in the management of the risks;

- **every day**, the Commodity Risk Control Unit is responsible for verifying the exposure to market risks of the companies in the Commercial and Trading Industrial Segment and for verifying compliance with the defined limits.

The reports are sent to the Top Management on a daily and monthly basis. When requested by the Internal Control System, Commodity Risk Control prepares the information requested and available to the system in the format appropriate to the procedures in force and sends it to Acea SpA's Internal Audit Unit.

The risk limits of the Commercial and Trading Segment are defined in such a way as to:

- minimise the overall risk of the entire segment;
- guarantee the necessary operating flexibility in the provisioning of commodities and hedging;
- reduce the possibility of over-hedging deriving from the variation in expected volumes for the definition of hedges;
- ensure the necessary operational flexibility for trading activities not related to industrial needs.

The management and mitigation of commodity risk are functional to achieving the economic and financial objectives of Acea Group, as indicated in the budget, in particular:

- to protect the primary margin against unforeseen and unfavourable short-term shocks in the energy market which affect revenues or costs;
- to identify, measure manage and represent exposure to risks;
- to reduce risks through the preparation and application of adequate internal controls, procedures, information systems and expertise.

Forward contracts (for physical transactions for the purchase and sale of commodities) are stipulated to meet the expected requirements deriving from the contracts in the portfolio or for transactions not involving sales to end customers.

The risk hedging strategy adopted by the Commercial and Trading Industrial Area also aims to minimise the risk associated with the volatility of the Income Statement deriving from the variability of market prices and ensure correct application of the Hedge Accounting (in accordance with current International Accounting Standards) to all derivative financial instruments used for such purpose.

As regards the commitments undertaken by the Acea Group to stabilise the cash flow from purchases and sales of electricity for the next year, it should be noted that all of the ongoing hedging operations are recorded in the accounts using the flow hedge method, as far as the effectiveness of hedging can be demonstrated.

The financial instruments used are of the swap and contracts for difference (CFD) type.

The evaluation of risk exposure involves the following activities:

- recording of all transactions involving physical quantities carried out in special books (known as Commodity Books) differentiated according to the purpose of the activity (Sourcing on wholesale markets, Portfolio Management, Sale to internal end customers inside and outside the Acea Group, Trading not linked to industrial needs) and commodities (e.g. Electricity, Gas, EUA) and nature of the operations (physical and financial);
- accurate analysis of the time profile of the purchases and sales containing the open positions, in other words exposure of the physical purchase and sale of single commodities, within set volume limits;
- creation of scenarios of reference (prices, indices);
- calculation of risk indicators/metrics (Volumetric exposure, VAR, PAR, price range);
- verification of compliance with current risk limits.

The activity performed by the Commodity Risk Control Unit provides for daily codified checks at "event" on compliance with risk procedures and limits (also for purposes of compliance with Law

no. 262/05) and reports to the Top Management any discrepancies detected during the phases of checks, so that measures can be adopted to be within the established limits.

Interest rate risk

The Acea Group's approach to managing interest rate risk, which takes the structure of assets and the stability of the Acea Group's cash flows into account, has essentially been targeted, up to now, at hedging funding costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

The Acea Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.

A static (as opposed to dynamic) approach means adopting a type of interest rate risk management that does not require daily activity in the markets, but periodic analysis and control of positions based on specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term.

Acea has, up to now, opted to minimise interest rate risk by choosing a mixed range of fixed and floating rate funding instruments.

As it is known, fixed rate funding protects a borrower from cash flow risk in that it stabilises the financial outflows in the income statement, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.

Foreign exchange risk

The Group is not particularly exposed to this type of risk, which is concentrated in the conversion of the financial statements of its overseas subsidiaries.

As regards the 20 billion Yen Private Placement, the exchange rate risk is hedged through a cross currency swap described in the section on interest rate risk.

Liquidity risk

The Group policy for managing liquidity risk, for both Acea and its subsidiaries, involves the adoption of a financial structure which, coherent with business objectives and within the limits defined by the Board of Directors, guarantees a suitable liquidity level that can meet financial requirements, while maintaining an appropriate balance between maturity and composition of debt, also taking into account the challenging objectives set out in the Business Plan in terms of developing new M&A initiatives. The various factors of uncertainty faced by the Group include the potential economic, financial and reputational impact associated with the closing or failure to close the aforementioned transactions. The Acea Group has therefore adopted an articulated and structured assessment process for these risks, carried out in close coordination between the companies and the Parent Company's organisational controls of the individual types of risk.

The liquidity risk management process, which uses financial planning tools for outflows and receipts implemented at the level of the individual companies under the coordination of specific Group oversight, aimed at optimising the management of treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract.

Credit risks

In July 2019 Acea issued the new guidelines of the credit policy to make it consistent with the ongoing organisational changes at the end of 2018 and the Credit Risk Profiling project, with which different credit management strategies have been identified. Also in July 2019, the "Scoring and customer trust" procedure was issued. The Collection Strategy envisages that credit is managed taking in-

to account both the type of customer (public and private) and the conduct of the individual customers (*behaviour score*).

The Credit Check system, operating on markets that have not been regulated for a number of years, and with which subjects to verification, through personalised scorecards, all new mass-market and small business customers integrated with the CRM in 2018.

With the May 2019 operational kick-off, project work was launched on Credit Risk Profiling for the three-year period 2019-2021, the macro objectives being the optimisation of the acquisition process, models and tools for managing Large Business customers, the activation of information platforms to support sales and the development of an advanced monitoring dashboard.

The assessment of Large Business customers continues to be managed through an approval workflow with decision-making bodies consistent with the level of exposure expected from the supply.

The dynamic management of recovery strategies is carried out in the billing system for active customers and through a dedicated management system for those discontinued. There is also a full review of the credit management process both in terms of the application map and the standardisation of activities for all Group companies, with the definition of a new Collection Strategy, fully integrated into the systems.

From the organisational point of view, in 2016 a further strengthening of the centralised management was achieved through the establishment of a new unit within the Parent Company, responsible for credit policies and the recovery of receivables from customers discontinued or with significant exposures. The structures of each single company responsible for managing credit reported

functionally to the Acea Unit that guarantees end-to-end supervision of the entire process.

At the end of 2018, once the extraordinary design review and recovery processes had been completed, the mass management of receivables that had ceased – of a limited amount – was transferred to the operating companies, leaving to the holding company the activity of disposing of non-performing receivables through disposal operations, as well as the management of customers that had ceased to exist for a significant amount of time.

During 2019, the Group significantly improved its collections capacity both in terms of electricity sales and the water supply business, significantly reducing the respective unpaid amounts compared to current turnover.

As in previous years, this year the Group has set up non-recourse, revolving and spot transactions, of receivables from private customers and public administrations. This strategy exposes the Group to the risks involved in closing or failing to close these operations, and on the other hand allows the full derecognition of the corresponding assets subject to disposal from the financial statements since all the risks and benefits associated with them have been transferred.

Risks relating to the rating

Access to the capital market and other forms of funding and the related costs, depends amongst other things on the Group's credit rating. A reduction in the credit rating by rating agencies could represent a limiting factor for access to the capital market and increase collecting costs with the consequent negative effects on the equity, economic and financial standing of the Group.

Acea's current rating is shown in the following table.

Company	M/L Term	Short Term	Outlook	Date
Fitch	BBB+	F2	Stabile	16/05/2019
Moody's	Baa2	Na	Stabile	08/08/2019

OPERATING (AND FINANCIAL) OUTLOOK

The results achieved by the Acea Group at 31 December 2019 are better than the forecasts.

The Group is determined to make major investments in infrastructure that, while maintaining the solidity of its consolidated financial structure, have a positive impact on the Group's operating and economic performance.

The Group's financial structure is solid for the years to come. At 31 December 2019, 80.7% of debt is fixed rate in order to ensure protection against any increases in interest rates as well as any financial or credit volatility. At 31 December 2019 the average dura-

tion of medium/long-term debt stood at 5.8 years. Note that the reduction of the average cost went from 2.21% of 31 December 2018 to 2.15% of 31 December 2019.

For the year 2020 Acea expects:

- an increase in EBITDA between 6% and 8% compared to 2019 in line with the CAGR of the 2019-2022 Business Plan;
- investments substantially in line with 2019 and the 2019-2022 Business Plan;
- a net financial debt at the end of 2020 between € 3.45 and € 3.55 billion.

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

Dear Shareholders,

In inviting you to approve the financial statements we are submitting to you, we propose to allocate the profit for the year ended 31 December 2019, equal to € 208,488,011.79, as follows:

- € 10,424,400.59, equal to 5% of profit, to the legal reserve,
- € 165,787,367.46 to shareholders, corresponding to a unit dividend of € 0.78,
- € 32,276,243.74 for retained earnings.

The total dividend (coupon no. 21 of € 165,787,367.46, equal to € 0.78 per share, will be paid starting from 24 June 2020 with coupon detachment on 22 June and record date 23 June.

On the date of approval of the financial statements, treasury shares amounted to no. 416,993.

Acea SpA
The Board of Directors