



a2a

SHAPING THE FUTURE TODAY

2020

Half-yearly financial report

June 30, 2020



Half-yearly financial report at June 30, 2020

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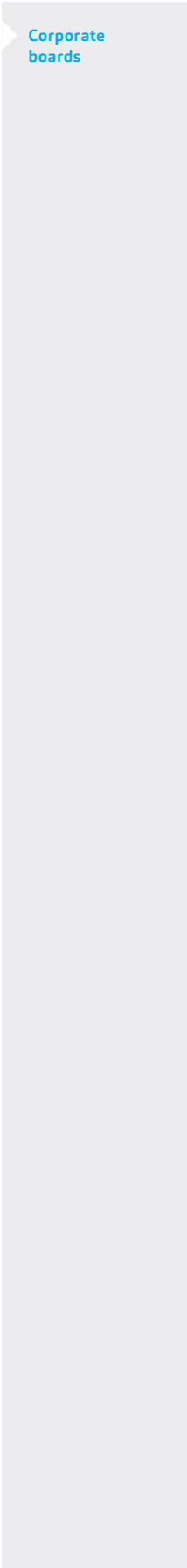
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This is a translation of the Italian original "Relazione finanziaria semestrale al 30 giugno 2020" and has been prepared solely for the convenience of international readers. In the event of any ambiguity the Italian text will prevail. The Italian original is available on the website www.a2a.eu.



Corporate boards



BOARD OF DIRECTORS

CHAIRMAN
Marco Emilio Angelo Patuano
DEPUTY CHAIRMAN
Giovanni Comboni
CEO AND GENERAL MANAGER
Renato Mazzoncini
DIRECTORS
Stefania Bariatti
Vincenzo Cariello
Federico Maurizio d'Andrea
Luigi De Paoli
Gaudiana Giusti
Fabio Lavini
Christine Perrotti
Secondina Giulia Ravera
Maria Grazia Speranza

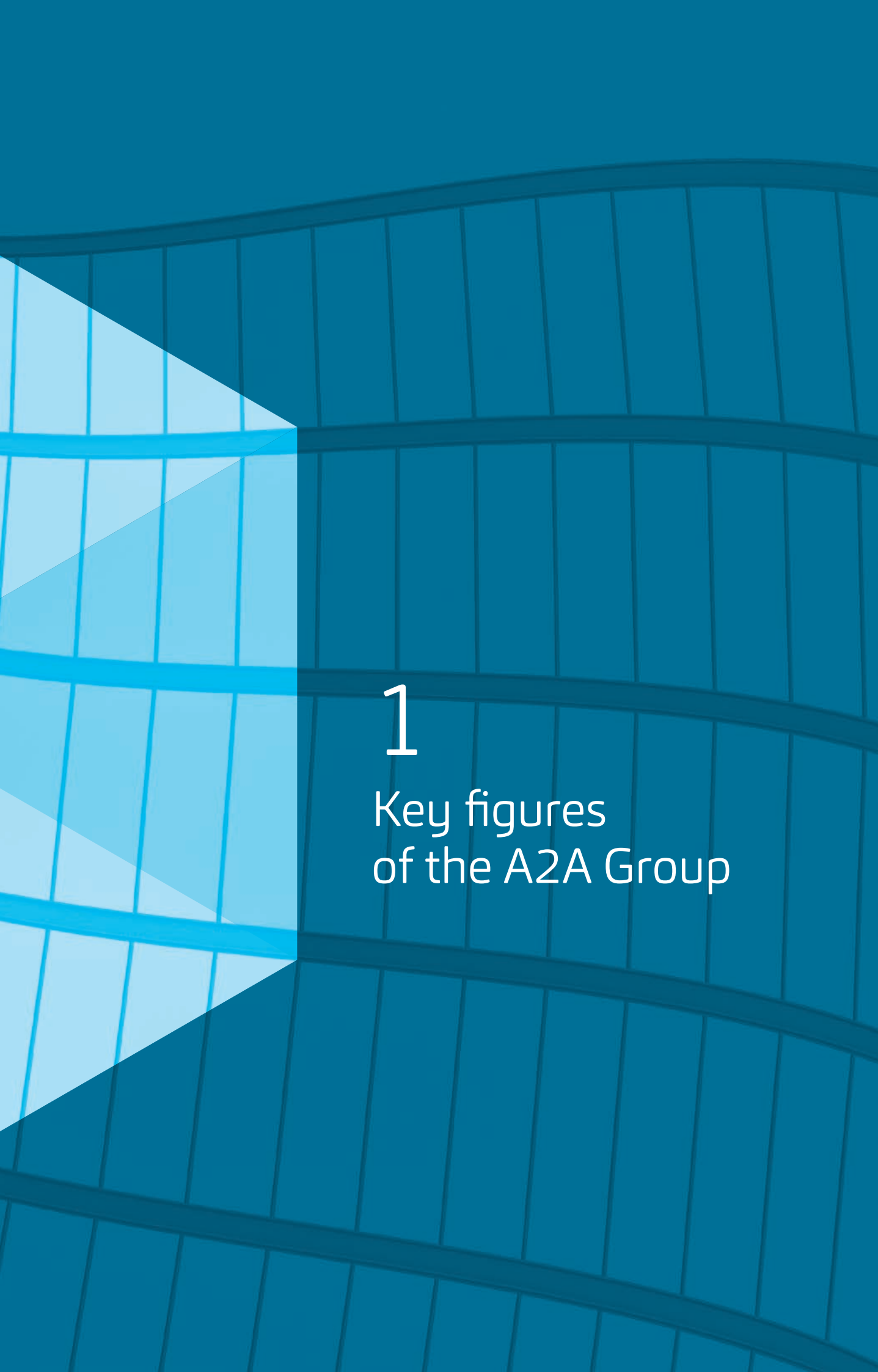
BOARD OF STATUTORY AUDITORS

CHAIRMAN
Giacinto Gaetano Sarubbi
STANDING AUDITORS
Maurizio Leonardo Lombardi
Chiara Segala
ALTERNATE AUDITORS
Antonio Passantino
Patrizia Tettamanzi

INDEPENDENT AUDITORS

EY S.p.A.





1

Key figures
of the A2A Group

Business Units

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

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

Generation and Trading

- Thermoelectric, hydroelectric and other renewable plants
- Energy Management

Market

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

Waste

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

Networks and District Heating

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

International

- Provision of know-how and technologies for the construction of waste pre-treatment plants

Corporate

- Corporate services

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





1
**Key Figures of
the A2A Group**

Business Units

Geographical

areas of activity

Group structure

Financial

highlights at June

30, 2020

Shareholdings

A2A S.p.A. on the

Stock Exchange

Alternative

Performance

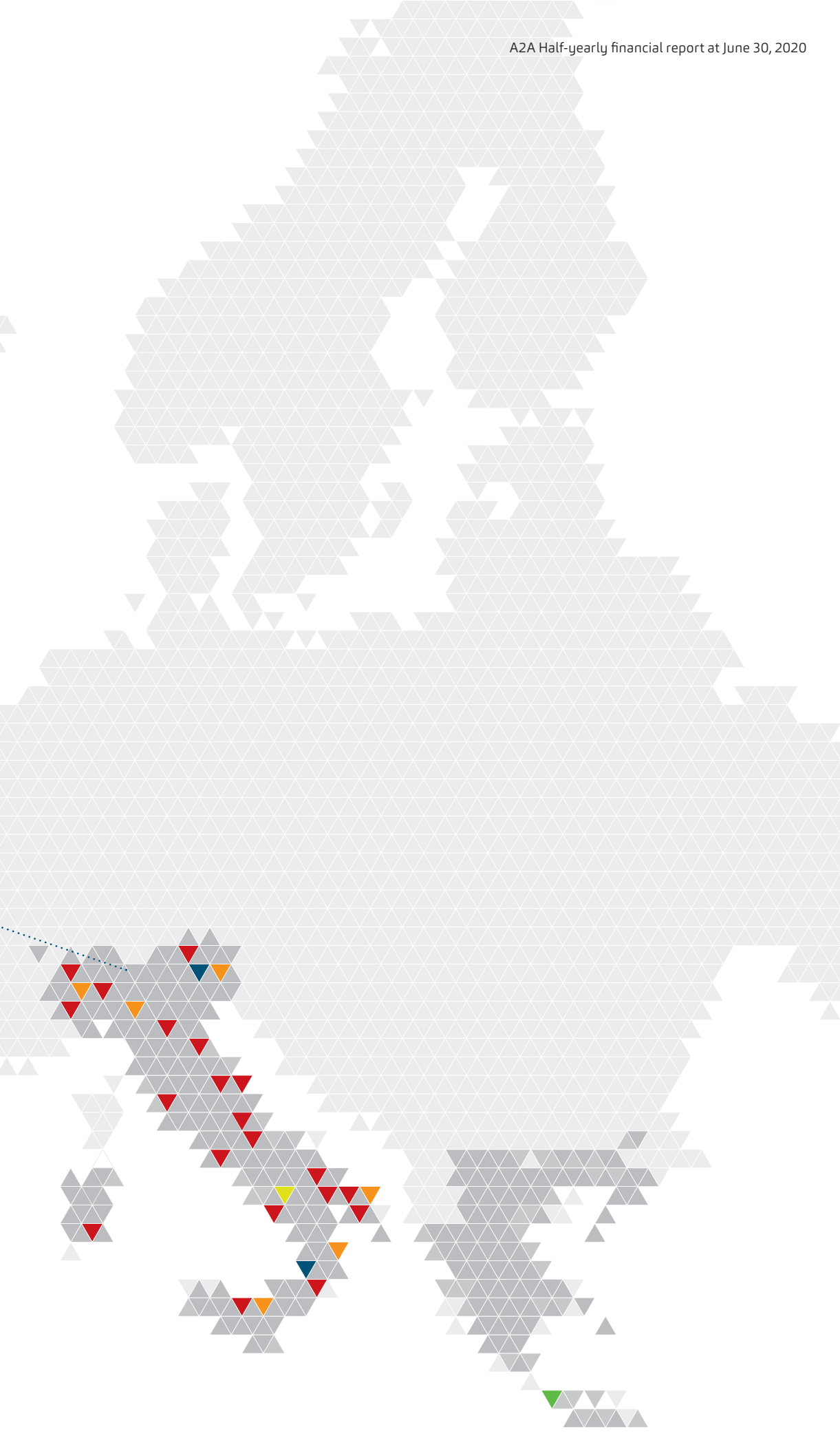
Indicators (APM)

Geographical areas of activity

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

Updated to June 30, 2020





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**Key Figures of
the A2A Group**

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*Geographical
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Group structure

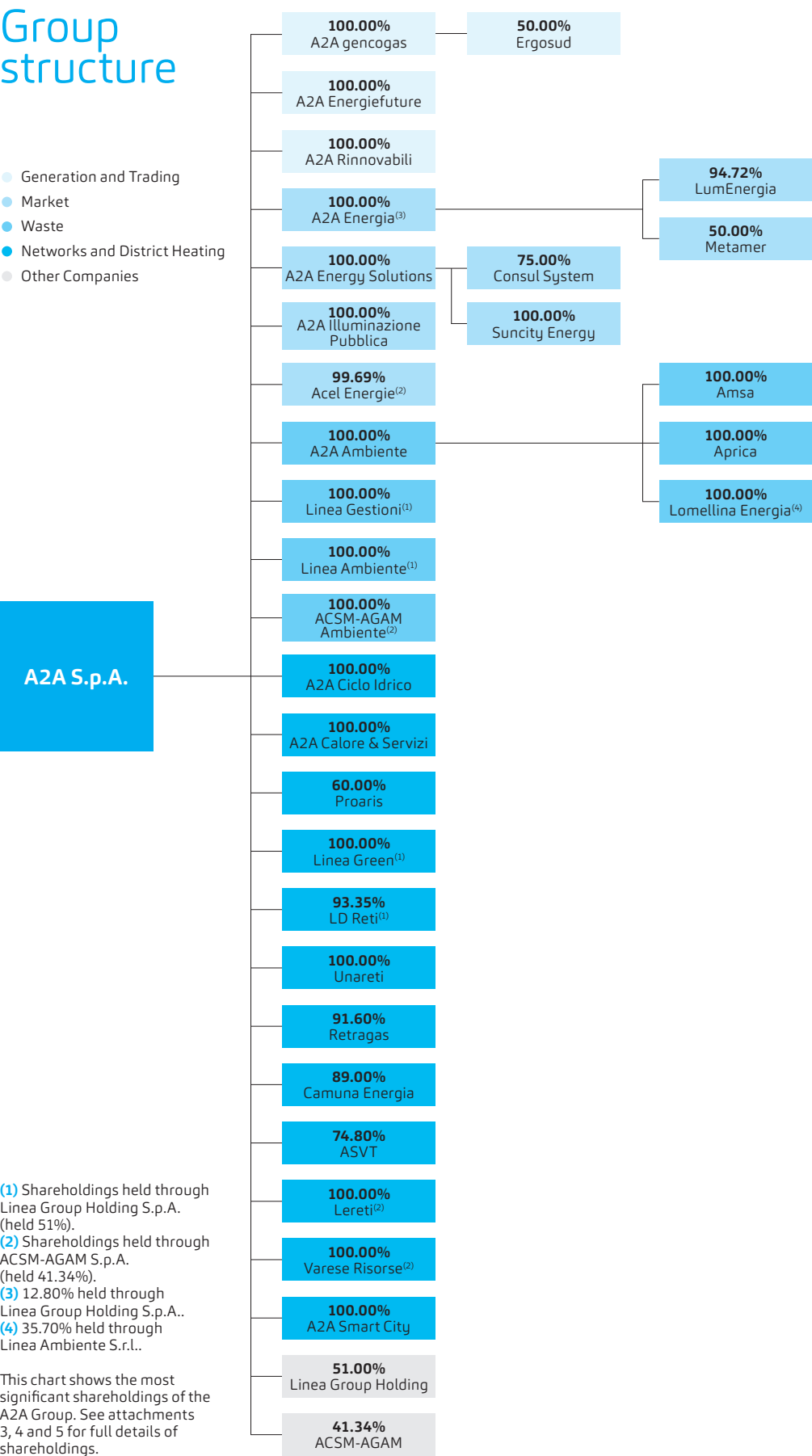
*Financial
highlights at June
30, 2020*

*Shareholdings
A2A S.p.A. on the
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*Alternative
Performance
Indicators (APM)*

Group structure

- Generation and Trading
- Market
- Waste
- Networks and District Heating
- Other Companies



⁽¹⁾ Shareholdings held through Linea Group Holding S.p.A. (held 51%).
⁽²⁾ Shareholdings held through ACSM-AGAM S.p.A. (held 41.34%).
⁽³⁾ 12.80% held through Linea Group Holding S.p.A..
⁽⁴⁾ 35.70% held through Linea Ambiente S.r.l..

This chart shows the most significant shareholdings of the A2A Group. See attachments 3, 4 and 5 for full details of shareholdings.

Financial highlights at June 30, 2020 (**)



3,181

millions of euro

REVENUES



559

millions of euro

GROSS OPERATING
INCOME



154

millions of euro

RESULT OF THE PERIOD

Income statement figures millions of euro

	01 01 2020 06 30 2020	01 01 2019 06 30 2019
Revenues	3,181	3,711
Operating expenses	(2,267)	(2,775)
Labour costs	(355)	(354)
Gross operating income - EBITDA	559	582
Depreciations, amortization, provisions and write-downs	(278)	(255)
Net operating income - EBIT	281	327
Result from non-recurring transactions	-	-
Financial balance	(38)	(65)
Result before taxes	243	262
Income taxes	(78)	(87)
Net result from discontinued operations	(2)	-
Minorities	(9)	(9)
Group result of the period	154	166
Gross operating income/Revenues	17.6%	15.7%

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

Balance sheet figures

millions of euro

06 30 2020

12 31 2019

Net capital employed	7,015	6,805
Equity attributable to the Group and minorities	3,582	3,651
Consolidated net financial position	(3,433)	(3,154)
Consolidated net financial position/Equity attributable to the Group and minorities	0.96	0.86
Consolidated net financial position / EBITDA	6.1	2.6

Financial data

millions of euro

01 01 2020
06 30 2020

01 01 2019
06 30 2019

Net cash flows from operating activities	350	527
Net cash used in investing activities	(337)	(258)
Free cash flow (Cash Flow Statement figure)	13	269

Key indicators

06 30 2020

12 31 2019

Average 6-month Euribor	(0.268%)	(0.302%)
Average price of Brent (US\$/bbl)	42.2	64.1
Average of the PUN (Single Nationwide Price) Base load (Euro/MWh)	32.2	52.3
Average of the PUN (Single Nationwide Price) Peak load (Euro/MWh)	35.6	58.4
Average price of coal (Euro/tonne)	41.7	54.4
Average price of gas to the PSV (*) (Euro/MWh)	9.2	16.0
Average price of emission certificates EU ETS (**) (Euro/tonne)	22.1	24.9

(*) Price of gas of reference for the Italian market

(**) EU Emissions Trading System

Group's key operational indicators	06 30 2020	06 30 2019
Generazione and Trading		
Thermoelectric production (GWh)	4,882	5,767
Hydroelectric production (GWh)	1,912	1,857
Electricity sold to wholesale customers (GWh)	6,253	5,177
Electricity sold on the Power Exchange (GWh)	6,689	6,404
Market		
Electricity sold to retail customers (GWh)	6,996	6,500
POD Electricity (#/1000)	1,192	1,160
Gas sold to retail customers (Mcm)	1,235	1,392
PDR Gas (#/1000)	1,495	1,492
Waste		
Waste collected (Kton)	801	852
Residents served (#/1000)	3,669	3,586
Waste disposed of (Kton)	1,609	1,675
Electricity sold by waste-to-energy (GWh)	955	877
Networks and District Heating		
Electricity distributed (GWh)	5,061	5,833
Gas distributed (Mcm)	1,618	1,736
Water distributed (Mcm)	36	38
RAB Electricity (M€)	667	649
RAB Gas (M€)	1,431	1,423
Heat sales (GWht)	1,568	1,641
Cogeneration production (GWh)	183	195

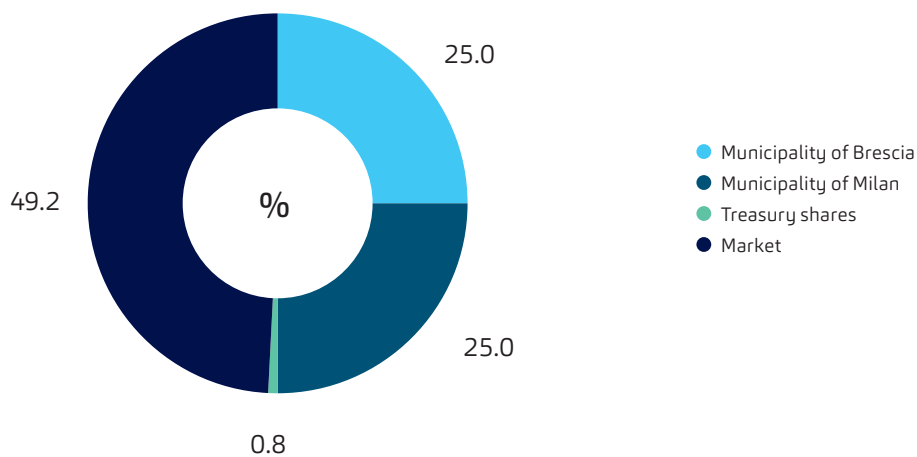
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Alternative
Performance
Indicators (APM)

Shareholdings (*)



(*) Source CONSOB for stakes higher than 3% (update at June 30, 2020)

Key figures of A2A S.p.A.	06 30 2020	12 31 2019
Share Capital (euro)	1,629,110,744	1,629,110,744
Number of ordinary shares (par value 0.52 euro)	3,132,905,277	3,132,905,277
Number of treasury shares (par value 0.52 euro)	23,721,421	23,721,421

A2A S.p.A. on the Stock Exchange

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

Market capitalisation at June 30, 2020 (millions of euro)	3,949	
Share capital at June 30, 2020 (shares)	3,132,905,277	
	First six months of 2020	Last 4 quarters
Average market cap (millions of euro)	4,428	4,803
Average daily volumes (shares)	14,174,159	11,896,589
Average price (€/share)	1.41	1.53
Maximum price (€/share)	1.90	1.90
Minimum price (€/share)	1.00	1.00

Source: Bloomberg

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

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

A2A forms part of the following indices

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

Ethical Indices

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

Source: Bloomberg and company information

Moreover, A2A has been included in the Ethibel Excellence Investment Register and in the Ethibel Pioneer Investment Register.

In 2019 A2A obtained an A rating on the MSCI ESG questionnaire and a B- rating on the CDP climate change and CDP Water questionnaires.

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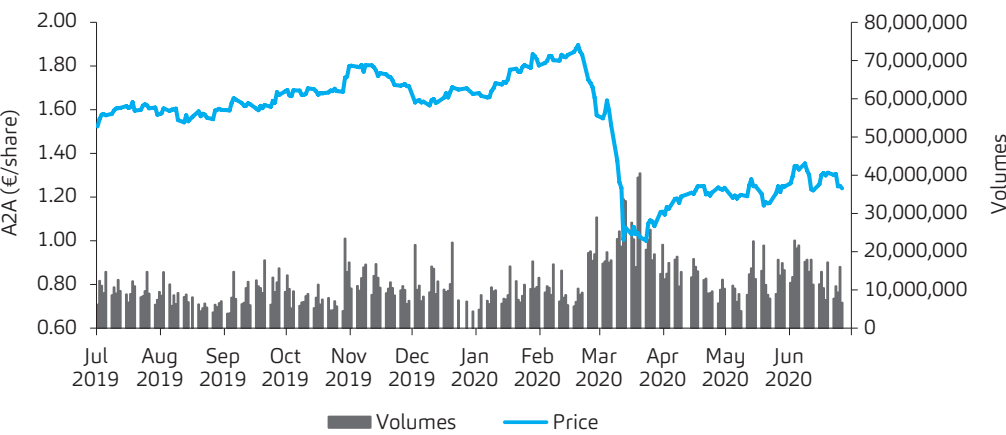
Financial highlights at June 30, 2020

Shareholdings

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Alternative Performance Indicators (APM)

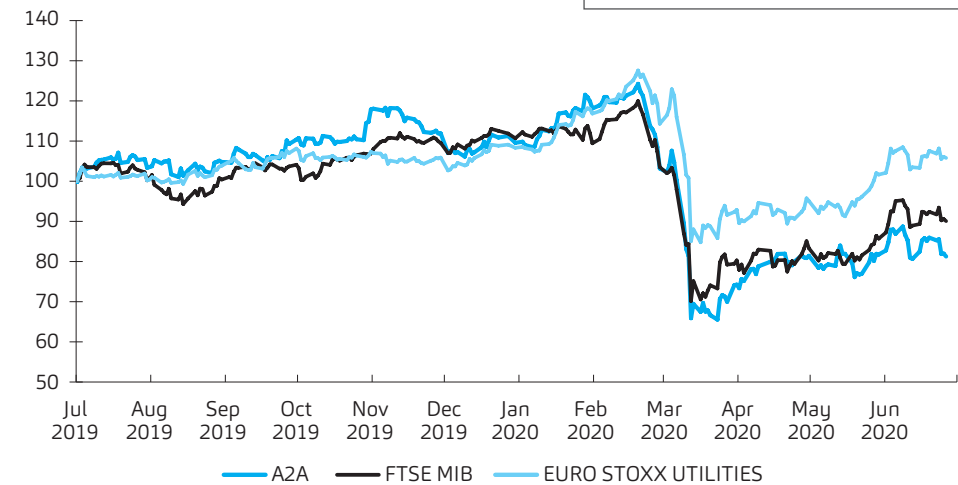
A2A: price and volumes



A2A vs FTSE MIB and EURO STOXX UTILITIES

(Price June 28, 2019 = 100)

Historical volatility in the last 4 quarters:
A2A: 29.8%
FTSE MIB: 26.8%



Source: Bloomberg

Rating

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

Source: Rating agencies

Alternative Performance Indicators (APM)

In this Half-yearly financial report, a number of alternative performance measures (APM) have been used that are different from the financial indicators expressly provided for by the international accounting standards IFRS-EU adopted by the Group.

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

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

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

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

Gross operating margin

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

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

Result from non-recurring transactions

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

This indicator is positioned between net operating income and the financial balance. In this way net operating income is not affected by non-recurring operations, making it easier to measure the effective performance of the Group's ordinary operating activities.

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Net fixed assets

Net fixed assets is determined as the algebraic sum of:

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

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

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

Working capital

Working capital is determined as the algebraic sum of:

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

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

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

Invested capital/Net invested capital

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

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

Sources of funds

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

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

Net financial position/Net financial debt

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

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

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

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

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

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

Investments in tangible and intangible assets

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

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

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

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

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**Alternative
Performance
Indicators (APM)**





2

Consolidated results
and report
on operations

Summary of results, assets and liabilities and financial position

Results

The consolidation scope at June 30, 2020 changed compared to the corresponding period of the previous year due to the following operations:

- acquisition and line-by-line consolidation by LGH S.p.A. of 100% of the companies Agritre S.r.l. and Tre Stock S.r.l., companies operating in the biomass generation segment;
- line-by-line consolidation of Asm Energia S.p.A., a company operating on the gas and electricity sale market, starting February 1, 2020;
- acquisition and line-by-line consolidation of 100% of Areslab S.r.l. and 90% of Electrometal S.r.l., companies active in the market for the treatment and analysis of industrial waste, by A2A Ambiente S.p.A. in December 2019.

The results of the A2A Group for the period ended June 30, 2020 are set out below, with figures for the previous period.

<i>millions of euro</i>	01 01 2020 06 30 2020	01 01 2019 06 30 2019	Change
Revenues	3,181	3,711	(530)
of which:			
- Revenues from the sale of goods and services	3,084	3,610	(526)
- Other operating revenues	97	101	(4)
Operating expenses	(2,267)	(2,775)	(508)
Labour costs	(355)	(354)	1
Gross Operating Income - EBITDA	559	582	(23)
Depreciation, amortization and write-downs	(264)	(245)	19
Provisions	(14)	(10)	4
Net Operating Income - EBIT	281	327	(46)
Result from non-recurring transactions	-	-	-
Net financial charges	(39)	(65)	(26)
Affiliates	1	-	1
Result before taxes	243	262	(19)
Income taxes	(78)	(87)	(9)
Result after taxes from operating activities	165	175	(10)
Net result from discontinued operations	(2)	-	(2)
Minorities	(9)	(9)	-
Group result of the period	154	166	(12)

In the first half of 2020, the **Revenues** of the A2A Group amounted to 3,181 million euro, down 14.3% compared to the previous year.

The reduction mainly regarded the wholesale energy market following both the lesser prices of electricity and gas and the reduction in volumes sold on the industrial gas portfolio, as well as the *retail* gas and district heating markets for the lesser unit prices and lesser quantities sold, partly due to the measures taken to contain the spread of COVID-19 (with reference to commercial and production uses) and partly due to unfavourable weather conditions with respect to the 2019 winter season (for domestic uses). The revenues relative to tariff contributions recognised to distributors for the cancellation of the obligation of energy efficiency certificates (TEE), due to the postponement of the related deadline from May to November.

EBITDA came in at 559 million euro, down 23 million euro on the first half of 2019 (-4%).

Net of non-recurring items (6 million euro in the first half of 2020; 7 million euro in the first half of 2019), EBITDA decreased by 22 million euro (-4%).

The following table highlights the breakdown by Business Unit:

millions of euro	06 30 2020	06 30 2019	Delta	Delta %
Generation and Trading	98	117	(19)	(16.2%)
Market	113	116	(3)	(2.6%)
Waste	144	135	9	6.7%
Networks and District Heating	220	227	(7)	(3.1%)
International	(1)	(1)	-	n.s.
Corporate	(15)	(12)	(3)	(25.0%)
Total	559	582	(23)	(4.0%)

The Gross Operating Margin of the Generation and Trading Business Unit amounted to 98 million euro, a decrease of 19 million euro compared to the same period of the previous year. Before non-recurring items (equal to +8 million euro in 2020 and +3 million euro in 2019), Ordinary EBITDA dropped by 24 million euro.

The negative effects accentuated by the emergency situation suffered by the energy generation sector - due to the severely penalising scenario and the decline of the contestable demand - were partly offset by an effective hedging strategy, the better results achieved on the ancillary services market ("MSD"), the greater hydroelectric production and a containment of operating costs.

The Gross Operating Margin of the Market Business Unit equalled 113 million euro (116 million euro for the first half of the previous year).

Net of non-recurring items (substantially nil in 2020 and +3 million euro in 2019), the Ordinary EBITDA of the BU was in line with the same period of the previous year.

The excellent performance seen in the energy retail segment (+7 million euro) was neutralized by the lesser margins of the public lighting sector (-1 million euro) and the decline of the energy solutions sector (-6 million euro).

Growth in the *energy retail* segment is mainly due to the increase in the number of customers on the free electricity and gas market (76 thousand more than end 2019) and the greater sales to major electricity customers, despite the slow-down to commercial activities and the reduction in unitary consumptions consequent to the COVID-19 emergency.

Positive contributions also came from the update of the QVD, tariff component applied to customers of the protection service to cover the costs of retail marketing of gas sales (resolution 577/2019/R/gas) and a reduction in operating costs (indirect channel commissions, marketing and external communication expenses in support of the acquisition of new customers, slowed following the spread of COVID-19).

These positive effects more than offset the impact deriving from the reduction in gas sales due both to unfavourable weather conditions with respect to the previous year and, in particular for large and small industrial clients, the slowing of all economic and commercial activities consequent to the measures adopted to limit the spread of COVID-19.

The energy solutions sector has recorded a reduction in margins due to the lesser margins due to lesser income from the sale and management of white certificates of the companies operating in the sector, linked partly to the different timing (postponement from May to November) of procurement by distributors obliged to cancel the energy efficiency certificates (TEE).

The lesser margins of the public lighting segment, determined by the different timing of the issue of white certificates with respect to last year (issue envisaged for the second half of 2020 with respect to that carried out in the first half of 2019) and the postponement of the deadline for distributors

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and the value of
the assets
(IAS 36)

to cancel the obligation, was partly offset by the greater margins for maintenance work and the management of new municipalities.

The EBITDA of the Waste Business Unit equalled 144 million euro (135 million euro at June 30, 2019).

Net of non-recurring items (+1 million in 2020; substantively nil in 2019), the Business Unit's Ordinary EBITDA came to 143 million euro, up 8 million euro.

The Collection segment made a good contribution to the half-year result (+3 million euro) for the lesser payroll costs and the limitation of spending on consumption and maintenance of vehicles, following the slowdown of activities due to the measures implemented to combat the COVID-19.

The urban and industrial treatment plant segments recorded a growth in margins totalling 5 million euro, determined by the greater quantities of electricity produced, the positive trend in transfer prices (in particular of waste similar to urban waste), the increase in paper sales prices and the contribution of newly acquired plants for recent M&A operations (treatment lines of Electrometal, a company active in the treatment and recovery of waste from different industrial processes acquired at the end of 2019 and the biomass-driven generation plant Agritre acquired in February 2020) and those recently activated (plastic recovery plant of Muggiano, started in the second half of 2019) and the limitation of operating costs.

These positive effects more than offset the reduction in margins linked to the lower prices of sale of electricity produced by waste-to-energy plants, the reduction in quantities disposed of following the block of production activities resolved nationally to limit the spread of COVID-19 and the higher costs of disposal, in particular of industrial waste.

EBITDA of the Networks and District Heating Business Unit in the first half of 2020 amounted to 220 million euro (227 million euro at June 30, 2019).

The reduction in margins is above all due to the district heating sector, both to the reduction in volumes following the high temperatures and the blockage of production activities, and to lower unitary margins for the highly penalizing energy scenario.

The results of the Business Unit were also adversely affected by the decrease in regulated eligible revenues from both gas and electricity distribution and the decrease in water sector volumes recorded during the lockdown.

Depreciation, amortization, provisions and write-downs totalled 278 million euro (255 million euro at June 30, 2019), representing an increase of 23 million euro.

Depreciation, amortization and write-downs totalled 264 million euro (245 million euro at June 30, 2019), representing an overall increase of 19 million euro.

Amortization of intangible assets amounted to 66 million euro (59 million euro at June 30, 2019), an increase of 7 million euro deriving for 8 million euro from higher amortization for the implementation of new information systems and for 1 million euro from lower amortization related to the gas meter replacement plan.

Depreciation of tangible assets amounted to 198 million euro (186 million euro at June 30, 2019), an increase of 12 million euro compared to June 30, 2019 attributable to:

- higher depreciation of 8 million euro, mainly relating to the investments which went into production after June 30, 2019;
- higher depreciation of 4 million euro, due to the reversal of impairment following impairment tests at the end of 2019 for assets relating to the Chivasso, Sermide and Mincio plants;
- higher depreciation of 2 million euro, relating to the consolidation of Agritre, Tre Stock and Biofor, consolidated from the second half of 2019;
- higher depreciation of 2 million euro related to the decommissioning provision for the safety upgrade of the San Filippo del Mela power plant;
- higher depreciation of 1 million euro for rights of use;
- lower depreciation of 1 million euro resulting from the complete write-down of the Grottaglie landfill;

- lower depreciation of 4 million euro, including 3 million euro for the revision of the useful lives of the Corteolona, Giussago, Lacchiarella and Cascina Maggiore plants following the renewal of authorizations and 1 million euro for the revision of the useful life of Line 1 of the Parona waste-to-energy plant, which will be replaced by the new Line 3.

Provisions for risks had a net positive effect of 2 million euro (negative for 7 million euro at June 30, 2019), mainly connected with charges for the derivation of public water, due to surpluses of 6 million euro, adjusted by provisions for the period of 4 million euro.

The Bad debts provision amounted to 16 million euro (3 million euro at June 30, 2019). It is noted that the first half of 2019 benefited from the release of provisions for surpluses of about 10 million euro; net of this effect, the increase compared to the corresponding period of the previous year was 3 million euro.

As a result of these changes, **Net operating result** amounted to 281 million euro (327 million euro at June 30, 2019).

Net financial charges amounted to 39 million euro (65 million euro at June 30, 2019), representing a decrease of 26 million euro. This improvement is mainly due to lower expenses on medium/long-term loans refinanced as well as lower expenses recognized in the half-year for the early repayment of financial debt relating to the renewable companies acquired.

The **Affiliates** was positive for 1 million euro (nil at June 30, 2019), and is mainly attributable to the positive valuation of the shareholding held by Metamer.

Income taxes in the period in question equalled 78 million euro (87 million euro at June 30, 2019).

The **Net result from discontinued operations/assets held for sale** is negative and equal to 2 million euro (nil at June 30, 2019) and refers to the transfer of the shares, equal to 2% of the company Ascopiave S.p.A., as well as the valuation of the shares, equal to 2.16% of the share capital of Ascopiave S.p.A., for which the A2A Group has exercised the right of withdrawal, net of dividends collected.

The **Group result for the period**, after the minorities were deducted, was positive and amounted to 154 million euro (positive for 166 million euro at June 30, 2019).

Balance sheet and financial position

It is noted that the consolidation scope at June 30, 2020 changed compared to December 31, 2019 for the following operations:

- acquisition and line-by-line consolidation by LGH S.p.A. of 100% of the companies Agritre S.r.l. and Tre Stock S.r.l., companies operating in the biomass generation segment;
- line-by-line consolidation of Asm Energia S.p.A., a company operating on the gas and electricity sale market, starting February 1, 2020.

Net fixed assets

Net fixed assets amounted to 6,596 million euro, up 126 million euro compared to December 31, 2019.

Changes are detailed below:

- Tangible assets increased by 40 million euro mainly due to:
 - investments amounting to 139 million euro, essentially in the Networks & District Heating Business Unit for 59 million euro, the Waste Business Unit for 54 million euro and the Generation and Trading Business Unit for 17 million euro. In addition, the Corporate and Market Business Units recorded capex of 9 million euro.
 - first-time consolidation of acquisitions in the half-year, accounting for an increase of 86 million euro;
 - net increase of 14 million euro due to other increases, mainly due to right-of-use assets IFRS 16;
 - decrease of 1 million euro for disposals made during the period net of accumulated depreciation;
 - decrease of 198 million euro due to period amortization/depreciation.

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- Intangible assets increased by 70 million euro on December 31, 2019, due to:
 - increase of 111 million euro generated by period capex, essentially in the Networks and District Heating Business Unit for 81 million euro, the Corporate Business Unit for 14 million euro, the Market Business Unit for 12 million euro and the Waste and Generation and Trading Business Units for a total of 4 million euro;
 - net increase of 17 million euro in other changes, mainly due to the increase in environmental certificates of the industrial portfolio;
 - the first-time consolidation of acquisitions in the half-year, accounting for an increase of 11 million euro;
 - decrease of 66 million euro due to period amortization/depreciation.
 - reduction of 3 million euro (net of the related accumulated amortization/depreciation) mainly due to the sale to Italgas Reti S.p.A. of the branch relative to the management of the network and natural gas distribution service in the municipalities falling within the territorial area (Atem) Alessandria 4;
- Shareholdings and other non-current financial assets amounted to 34 million euro, down by 11 million euro compared to December 31, 2019, mainly related the change in the consolidation method of Asm Energia S.p.A.;
- Other non-current assets and liabilities rise by 6 million euro due for 3 million euro to the effects of the first consolidations during the half-year and other reductions in non-current assets for 3 million euro;
- Deferred tax assets amounted to 266 million euro (277 million euro at December 31, 2019) and showed a decrease of 11 million euro;
- the Provisions for risks, charges and liabilities for landfills drop, net of the first-time consolidation effects for 5 million euro, by 29 million euro. The period change is the net result of period utilisations (23 million euro), mainly due to decommissioning and landfill costs (8 million euro), the settlement of legal disputes (3 million euro) and additional utilisations (12 million euro). There was also a decrease brought about by surplus provisions for risks noted during the period for 2 million euro, mainly connected with charges for the derivation of public water and other decreases for 4 million euro;
- Employee benefits decreased by 20 million euro, due mainly to disbursements in the period, payments to pension funds and actuarial valuations, net of allocations in the period.

Net Working Capital and Other current assets/liabilities

The **Net Working Capital**, defined as the algebraic sum of trade receivables, closing inventories and trade payables, amounted to 676 million euro, up by 121 million euro compared to December 31, 2019. Comments on the main items are given below:

- Inventories amounted to 146 million euro (184 million euro at December 31, 2019), net of the related obsolescence provision for 20 million euro, up 2 million euro compared to December 31, 2019. The reduction is mainly due to the combined effect of the decrease for 34 million euro of the stock of fuels (gas), reduction for 11 million euro in commodities held with third parties (coal) and an increase for a total of 7 million euro in stocks of materials and other inventories.
- Trade receivables amounted to 1,616 million euro (1,852 million euro at December 31, 2019), with a decrease, net of the first-time consolidation effect (30 million euro), of 266 million euro, mainly as a result of the seasonal effect.
- Bad debts provision amounted to 123 million euro showed a net increase of 15 million euro compared to December 31, 2019, essentially due to provisions in the period for 16 million euro, contributions of the first consolidations for 5 million euro and uses for 7 million euro consequent to write-offs of receivables completely written down.
- Trade payables amounted to 1,086 million euro, with a decrease of 408 million euro, net of the first-time consolidation effect, of 13 million euro, mainly as a result of the seasonal effect.

- Other current assets/liabilities presented a net increase in liabilities of 57 million euro, mainly due to:
 - net increase in tax payables for 73 million euro;
 - net increase of 4 million euro in payables to CSEA (Energy and Environmental Service Fund);
 - net increase of 44 million euro in tax payables for VAT, excise duties and other taxes;
 - net increase in derivative assets for 22 million euro;
 - decrease in advances to suppliers for 10 million euro;
 - increase in prepayments for 23 million euro, mainly due to the payment of annual fees in the first half of 2020;
 - reduction in the amounts payable for tariff components on energy for 21 million euro;
 - reduction of 4 million euro in payables to employees and social security institutions;
 - other negative changes in current liabilities for 4 million euro.

At June 30, 2020, **Assets/liabilities held for sale** amounted to 20 million euro (nil at December 31, 2019) and refer to the shareholding of 2.16% of the share capital of Ascopiave S.p.A. for which the Group exercised the right of withdrawal.

Consolidated **capital employed** amounted to 7,015 million euro at 30 June 2020, financed by shareholders' equity (3,582 million euro) and net financial position (3,433 million euro).

Shareholders' equity

Equity amounted to 3,582 million euro and shows a negative change for a total of 69 million euro.

A total of 241 million euro in dividends contributed to the change.

This change is partly offset by:

- period result for 163 million euro (154 million euro pertaining to the Group and 9 million euro to minorities);
- reserves arising from the valuation of cash flow hedges and IAS 19 reserves, which showed a change of 19 million euro.

The **Net financial position** amounted to 3,433 million euro (3,154 million euro at December 31, 2019). The cash flow generated in the period was negative and amounted to 157 million euro, after the payment of dividends for 241 million euro and investments in the year for 250 million euro.

The changes in the scope of consolidation led to a worsening in the Net Financial Position for a total of 122 million euro, mainly due to the acquisition of equity investments during the period.

<i>millions of euro</i>	06 30 2020	12 31 2019	Change
EMPLOYED CAPITAL			
Net fixed assets	6,596	6,470	126
- Tangible assets	4,909	4,869	40
- Intangible assets	2,449	2,379	70
- Shareholdings and other non-current financial assets (*)	34	45	(11)
- Other non-current assets/liabilities (*)	(123)	(117)	(6)
- Deferred tax assets/liabilities	266	277	(11)
- Provisions for risks, charges and liabilities for landfills	(652)	(676)	24
- Employee benefits	(287)	(307)	20
<i>of which with counter-entry to equity</i>	(92)	(114)	
Net Working Capital and Other current assets/liabilities	399	335	64
Net Working Capital:	676	555	121
- Inventories	146	184	(38)
- Trade receivables	1,616	1,852	(236)
- Trade payables	(1,086)	(1,481)	395
Other current assets/liabilities:	(277)	(220)	(57)
- Other current assets/liabilities (*)	(261)	(277)	16
- Current tax assets/tax liabilities	(16)	57	(73)
<i>of which with counter-entry to equity</i>	(10)	(21)	
Non current assets held for sale (*)	20	-	20
<i>of which with counter-entry to equity</i>	-	-	
TOTAL EMPLOYED CAPITAL	7,015	6,805	210
SOURCES OF FUNDS			
Equity	3,582	3,651	(69)
Total financial position beyond one year	3,099	3,294	(195)
Total financial position within one year	334	(140)	474
Total Net Financial Position	3,433	3,154	279
<i>of which with counter-entry to equity</i>	29	24	
TOTAL SOURCES	7,015	6,805	210

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

<i>millions of euro</i>	01 01 2020 06 30 2020	01 01 2019 06 30 2019
NET FINANCIAL POSITION AT THE BEGINNING OF THE PERIOD	(3,154)	(3,022)
First-time consolidation effect	(36)	(1)
First-time application of IFRS 16	-	(109)
New contracts IFRS 16	(11)	(12)
Net result (**)	163	175
Depreciation/amortization	264	245
Write-downs/disposals of tangible and intangible assets	4	2
Affiliates	(1)	-
Write-downs of assets held for sale	-	-
Net interest for the period	39	65
Net interest paid	(49)	(50)
Net taxes paid	(5)	-
Changes in assets and liabilities (*)	(65)	90
Cash flow from operating activities	350	527
Investments in tangible and intangible assets	(250)	(252)
Investments in shareholdings and securities	(105)	(6)
Disposals of fixed assets and shareholdings	18	-
Dividends received from shareholdings	-	-
Net cash flows from investment activities	(337)	(258)
Free cash flow	13	269
Dividends paid by the parent company	(241)	(218)
Dividends paid by subsidiaries to third parties	(9)	-
Other non-monetary changes	10	(15)
Cash flow from dividend distribution and other changes	(240)	(233)
Changes in financial assets/liabilities with counter-entry to equity	(5)	(8)
NET FINANCIAL POSITION AT THE END OF THE PERIOD	(3,433)	(3,116)

(*) Excluding balances with counter-entry to equity.

(**) The net result is stated excluding gains on the disposal of shareholdings.

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Significant events during the period

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

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

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

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

According to this project, AEB would thus benefit from 79,000 gas redelivery points and would become the Group's development hub in the public lighting segment, with more than 275,000 lights.

It is also envisaged that, upon completion of the business combination process, A2A will enter the capital of AEB with 33.5%, becoming an industrial partner of the Company, with adequate governance prerogatives and with management and coordination role.

The plan provides for investments of more than 300 million euro over 5 years, and EBITDA after aggregation of AEB of more than 50 million euro.

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

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

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

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

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

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

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

On June 18, 2020, as the strategic assumptions on the basis of which the transaction had been carried out no longer applied, A2A sold 4,688,231 Ascopiave S.p.A. shares at a price of 3.905 euro each, equal to 2% of the share capital. The A2A Group also exercised the right of withdrawal for the remaining 2.16% held.

LGH acquires the biomass plant Agritre

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

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

A2A Group: 2019 results approved

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

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

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

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

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

The Board of Directors of A2A S.p.A. has examined and approved the A2A Group's 2020-2024 Strategic Plan

The A2A Group has drawn up the new 2020-2024 Strategic Plan, which is an evolution of the TEC Plan approved last year, with renewed focus on sustainability actions and targets. In fact, the new Plan has been designed starting from the definition of challenging ESG objectives for each Business Unit, based on three main pillars of sustainability:

- **Climate Action:** our long-term vision is for decarbonization, aiming at the decommissioning of oil and coal plants by 2025, with a concrete commitment to support energy transition through the development of new renewable sources and solutions to improve the flexibility and adequacy of the electricity system;
- **Circular Economy:** our mission is to make concrete in our territories the recovery of materials and energy according to the best standards of waste management and integrated water cycle management;
- **Smart Solutions:** our model is based on the digitalization of services and the adoption of innovative and technologically advanced solutions to support, in particular, energy efficiency and electrification of consumption.

In each of these areas, challenging targets have been identified to be achieved by 2024, however also setting a longer-term development path up to 2030.

The Strategic Plan forecasts an ordinary EBITDA growth of 434 million euro to reach 1,626 million euro by 2024, with growth distributed among all the various Business Units. Total investments amounted to approximately 4.5 billion euro, of which approximately 0.6 billion euro related to development in the RES segment. The net financial position in 2024 is therefore expected to grow by 0.6 billion euro compared to 2019, with a reduction in the NFP/EBITDA ratio to 2.3x by 2024, thanks to growth in operating profitability.

The new Plan confirms last year's growing dividend policy. The dividend is expected to increase from 7.75 euro cents per share in 2019 to 8.00 euro cents in 2020, confirming the proposed minimum annual average dividend growth of 5% from 2021 to 2024.

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A2A will reduce greenhouse gas emissions by 46% by 2030

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

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

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

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

A2A Group: MuVen project

With regard to the “MuVen” aggregation project, A2A S.p.A., AGSM Verona and AIM Vicenza continued the feasibility study during the first half of the year for the creation of a strategic partnership project involving multi-utility companies with the aim of creating a reference player in the Triveneto area through an industrial aggregation.

At the same time, AGSM and AIM have started a market survey aimed at verifying the inapplicability of the A2A proposal; the outcome of the analyses on the comparability of the offers received through the market survey with those of A2A is expected shortly from AGSM and AIM.

It is also informed that, on June 29, 2020, the Board of Directors of AGSM Verona and the Sole Director of AIM Vicenza approved a merger project between the two groups; according to as declared the following day by the Statutory Auditors of Verona and Vicenza, this would represent a first step in a broader process that could involve the extension of the aggregation process to a third industrial partner.

A2A accelerates further on the decarbonization path

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

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

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

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

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

ENI and A2A: Partnership for industrial waste management

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

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

The A2A S.p.A. Board of Directors has examined and approved the quarterly Information at March 31, 2020

On May 12, 2020, the A2A S.p.A. Board of Directors approved the quarterly Information at March 31, 2020.

EBITDA was 331 million euro, while Group interest in net profit was 112 million euro: both results were up compared to the first quarter of 2019.

During the period, Capex totalled 123 million euro, up 13% compared to the first quarter of 2019. The Net Financial Position amounted to 3,297 million euro.

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

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

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

The Board of Directors consisting of the following 12 members was also appointed for 3 years using the voting list system: Marco Emilio Angelo Patuano - Chair; Giovanni Comboni - Vice Chair; Renato Mazzoncini; Federico Maurizio d'Andrea; Fabio Lavini; Stefania Bariatti; Maria Grazia Speranza; Gaudiana Giusti and Christine Perrotti (taken from the list submitted jointly by the majority shareholders, Municipality of Brescia and Municipality of Milan, owners of a total shareholding equal to about 50.000000112% of the share capital) Vincenzo Cariello, Secondina Giulia Ravera and Luigi De Paoli (taken from the list submitted jointly by a group of minority shareholders consisting of asset management companies and institutional investors, owners of a total shareholding equal to about 2.33325% of the share capital).

Appointed the following Board of Statutory Auditors of 3 standing members and 2 substitute members for a term of three years using the voting list system: Chiara Segala - Standing Auditor; Maurizio Leonardo Lombardi - Standing Auditor and Antonio Passantino - Substitute Auditor (taken from the list jointly submitted by the majority shareholders Municipality of Brescia and Municipality of Milan, owners of a total shareholding equal to about 50.000000112% of the share capital); Giacinto Gaetano Sarubbi - Chair and Patrizia Tettamanzi - Substitute Auditor (taken from the list jointly submitted by a group of minority shareholders consisting of asset management companies and institutional investors, owners of a total shareholding equal to about 2.33325% of the share capital).

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

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

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A2A S.p.A: Board of Directors

Milan, May 14, 2020 - The Board of Directors of A2A S.p.A. appointed by the Shareholders' Meeting of May 13, 2020 met today for the first time under the chairmanship of Marco Emilio Angelo Patuano.

The Board appointed Renato Mazzoncini as Chief Executive Officer and General Manager of the Company.

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

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

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

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

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

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

Significant events after June 30, 2020

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

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

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

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

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

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

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

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

With reference to the COVID-19 emergency, A2A has put in place measures for crisis management and the identification of adequate mitigation prospects linked to the possible continuation of negative impacts in the future.

Since 2018, the A2A Group has had a Group crisis plan aimed at managing unexpected crisis events through the identification of the organizational system, activities and procedures necessary to protect human resources inside and outside the A2A Group, contain material and immaterial damage and guarantee the correct management of communication flows externally and the continuity of the service offered, quickly restoring normal operating conditions and safeguarding the company's reputation and image. The Plan has also been applied in the management of the COVID 19 crisis defining the following main measures of control and mitigation:

- definition of the minimum functional services to be monitored by the plant managers and the list of managers necessary to manage the plants and related back-up, also with reference to contractors;
- definition of models to allow staff to circulate as necessary to guarantee a minimum service;
- increase in the periodicity of sanitation of common areas (weighbridges, porters, refectories) and workstations;
- preparation of a plan of equipment and PPE requirements for use in disposable mode;
- adoption of organizational and technological solutions to ensure that certain critical processes can be carried out remotely and methods for the execution of emergency intervention;
- definition of the modalities of exchange between the central staff.

Effects of the COVID-19 pandemic on the results booked as at June 30, 2020

The spread of the COVID-19 virus has had a clear negative impact on the Group's economic performance of around -7 million euro.

The gross impact, before the mitigation actions, was generated by various items that can be traced to the following three aspects:

- a slow-down to commercial activities, the collection and disposal activities and lesser consumption of electricity, gas, heat and water;
- the direct incurring of certain costs to cope with the health emergency situation (generalised purchases of PPE, mass supplies for collective *smart working*, etc.);
- worsening of the reference energy scenario.

These gross impacts, however, were partially offset by action taken to limit the costs by the Group's Management team.

More specifically, were taken mitigating actions includes lowering labor costs, using social shock absorbers (temporary lay-off funds), rescheduling new hires envisaged and using up past holiday. Additionally, we implemented a strict operating cost discipline, assuring suitable standards of safety and continuity of service.

Despite the critical context, the weak energy scenario and the generalised slow-down of the demand, the results recorded by A2A Group in the first half of 2020 showed only a limited reductions.

The spread of the COVID-19 health emergency also had a negative impact on the Group's cash flow.

Indeed, on top of the effects on EBITDA, net working capital also suffered, albeit only temporarily. The worsening of the Group cash flow was mainly due to:

- difficult in payments by retail customers, for approximately 35 million euro;
- delays in collections as a result of administrative delays, for approximately 45 million euro.

To cope with liquidity risk arising from the health crisis, including the temporary need for net working capital, the Group has strengthened its liquidity position by concluding loans and committed credit facilities during the first half, for a total of 550 million euro, of which to date, 400 million euro are still un-used.

Consequently, at June 30, 2020, the Group has a total liquidity position of 1,354 million euro, comprising 214 million euro in liquid funds and 1,140 million euro in unused loans and committed credit facilities.

Below is a more detailed breakdown of impacts per BU.

Generation and Trading

The Generation and Trading BU represents approximately 24% of the Group’s consolidated Ebitda (figures at December 31, 2019).

The spread of the virus caused a negative impact on the economic performance of the BU, net of recovery actions, of approximately 5 million euro compared to the first half of 2019 deriving from:

- worsening of the energy scenario. Although the effect of COVID-19 on the trend of the energy scenario, already weak starting from the 4th quarter of 2019, is difficult to disregard, it is reasonable to believe that the decline in world GDP due to the health crisis has affected the demand for commodities and, in particular, gas, and therefore the price of electricity (PUN) in Italy, which is significantly influenced by the price of gas;
- lower electricity production for the reduction of contestable demand.

The actions of the Generation and Trading BU aimed at containing the aforementioned effects were related to labour costs and plant operating costs.

Excluding the effects of Ebitda and Capex, the cash flow of the BU was not affected by any deterioration in net working capital.

Market

The Market BU represents approximately 19% of the Group’s consolidated Ebitda (figures at December 31, 2019).

The negative net impact on the economic performance of the BU, amounting to approximately 4 million euro compared to the first half of 2019, was mainly due to:

- slowdown in commercial activity (free market customer acquisition);
- lower electricity and gas consumption.

The actions of the Market BU aimed at containing these impacts concerned labour costs and, above all, a reduction in marketing, communication and commission costs for agents.

In addition to the effects of Ebitda and Capex, the cash flow of the BU was impacted by worse performance in collections from retail customers. This slowdown, observed starting in March and partly due to the blocking of reminder and supply interruption actions and the granting of repayment instalment plans to customers, led to a worsening estimated at approximately -35 million euro.

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Waste

The Waste BU represents approximately 22% of the Group's consolidated Ebitda (figures at December 31, 2019).

The Waste BU did not record any net negative effects from the health emergency during the half year as the negative impacts were fully offset by mitigation actions. The negative impacts concerned:

- slowdown in commercial activity, fewer collection services and a reduction in prices and volumes disposed of as a direct consequence of the lockdown;
- higher costs for PPE;
- worsening of the reference energy scenario.

The actions of the Waste BU aimed at containing these impacts concerned labour costs and lower operating expenses generated by lower collection services provided during the lockdown and lower plant activities.

In addition to the effects of Ebitda and Capex, the cash flow of the BU was negatively impacted by an increase in net working capital due to deferrals in collections for administrative delays for -45 million euro. However, these receivables were collected in the first half of July. Net of this single effect, the COVID-19 impacts on the net working capital of the BU were not material.

Networks and District Heating

The Networks and District Heating BU represents approximately 38% of the Group's consolidated Ebitda (figures at December 31, 2019).

The negative net impact on the economic performance amounting to 3 million euro compared to the first half of 2019, was due to:

- lower consumption of water and heat (net of lower thermal energy);
- higher costs for PPE and other expenses.

The actions of the Networks and District Heating BU aimed at containing these impacts mainly concerned labour costs.

The net working capital of the BU was impacted by the granting of instalment plans and the inability to carry out supply interruptions and send recommendations for the water and heat cycle businesses. However, the estimated impact in terms of lower revenues was negligible.

Corporate

The spread of the virus has generated increased expenses related to:

- higher costs for PPE and other expenses for emergency management (e.g. extraordinary sanitation, body temperature measurement service at the entrance of premises/plants);
- extraordinary contributions to some municipalities to support initiatives for citizens.

Thanks to actions to contain other operating and labour costs, the impact was neutralized overall.

Effects of the COVID-19 pandemic on expected 2020 results

Estimates of the effects of COVID-19 on the year 2020 naturally depend on the underlying assumptions about the extent, mode and speed of the evolution of the pandemic, in our country but also, for the effects on the energy scenario, at global level.

In the estimate of the effects shown below, the Group assumed the end of the acute phase of the crisis by September 2020 and then a gradual return to normal economic and social activities. Therefore, 2021 is assumed to be a normal year both in relation to the various economic activities and with reference to the energy scenario as a result of the forward curves currently quoted.

On the basis of these assumptions, the estimated net negative impact on economic performance, compared to 2019, is approximately 10-20 million euro, essentially resulting from the same items as those shown above, i.e.:

- 1. slowdown in commercial activity (particularly in the Market BU and Waste BU) and lower consumption of electricity, gas, heat and water;
- 2. incurring some costs to deal with the health emergency situation (purchase of PPE, equipment for collective Smart Working, extraordinary contributions to municipalities, etc.);
- 3. worsening of the reference energy scenario.

In conclusion, in relation to Ebitda, the Group expects positive and satisfactory results, substantially in line with market expectations (approximately 1,140 million euro).

Despite the difficulties caused by COVID-19, the capex planned for 2020 are expected to grow compared to those in 2019, mainly due to new developments in the Market BU (mainly ICT developments) and Waste BU (mainly new plant development).

With regard to cash flow, the Group expects that the deterioration in net working capital observed during the first half of the year will continue until the end of the year (about 100 million euro) to then be gradually reabsorbed in 2021.

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

Based on the information currently available, the Group estimates the end of the acute phase of the crisis by September 2020 and then a gradual return to normal. Expectations for 2021 and the following years will therefore not be significantly impacted by the spread of the COVID-19 pandemic, unless the effect of the energy scenario is taken into account. In relation to the scenario, the forward market curves show only starting from 2021 a trend of recovery in prices, both for gas at PSV and PUN, due to the inapplicability of measures restricting trade and the circulation of vehicles and people, with the progressive recovery of pre-crisis levels on industrial and commercial activities. Specifically, the curves, in their monthly trend, currently show values that progressively increase during the year with prices showing a significant recovery in the last months of 2021.

With reference to the application of IAS 36, Management, in addition to the internal and external impairment indicators normally monitored, assessed, on the basis of the information available at June 30, 2020, the effect of the spread of the COVID-19 pandemic on the recoverable amount of CGU subject to impairment test at December 31, 2019.

With regard to CGU identified by the Group and the related goodwill, with the exception of the Electricity CGU, which will be discussed below, based on the actual results for the first half of the year, forecasts for the end of the year and the aforementioned assumptions about the impact of the pandemic for years following 2020, Management does not believe that the spread of the COVID-19 pandemic could be an indicator of impairment and, consequently, did not deem it necessary to recognize an impairment loss.

As for the Electricity CGU, which has historically already been affected by impairment and reversals of impairment resulting from the adoption of IAS 36, Management carefully assessed the impact of the current energy scenario and that of projections for 2021 and subsequent years, as represented by the forward curves currently quoted.

In addition, following the recent market turbulence, Management has updated the discount rate applicable to the CGU (WACC) and has identified a range between 6.0% and 6.7%, i.e. values similar to the WACC used in the Impairment Test at December 31, 2019.

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In relation to the impacts of COVID-19 on the CGU, the following analyses were carried out:

- **Ebitda:** the COVID-19 virus is expected to have a negative impact on the CGU in 2020 and 2021, causing a loss of marginality related to the general worsening of the reference energy scenario, lower electricity production due to lower demand and a slowdown in commercial expansion in retail. However, it is believed that the greater contribution deriving from the favourable trend in spreads from 2021 onwards and the cost containment measures already implemented in 2020, can offset the negative impact caused by the spread of COVID-19 over a plan time horizon.
- **Capex:** planned investments in the year will be slightly below budget expectations mainly due to the lockdown imposed following the spread of the COVID-19 pandemic. This decrease will have a positive impact on cash flow in 2020, while it will not have a significant impact on margins in the coming year.

In conclusion, on the basis of the analyses carried out, the Electricity CGU is the most exposed to the trend of the energy scenario. However, in light of the analyses carried out and on the basis of the evidence available at June 30, 2020 and their foreseeable evolution to date, no critical issues have emerged and it is not considered at present, that the effects of the COVID-19 pandemic constitute a loss indicator such as to require the impairment of assets, including goodwill.

Consistently with the indications of IAS 36, the management team will continue to monitor the evolution of the macro-economic conditions and all other impairment indicators, promptly incorporating changes in value of the CGUs or assets, as, moreover, has been done in recent years.

Finally, in light of the analyses carried out and on the basis of the evidence available as at June 30, 2020, no critical issues and uncertainties have emerged in respect of the business operating as a going concern.

In particular, at present, the effects of the COVID-19 pandemic are not considered to be a cause for concern, also in view of the fact that, as a result of the diversification of activities, more than 60% of overall 2020 Group Ebitda (i.e. as represented by the Waste BU and Networks and District Heating BU) has, as previously described, characteristics of good resilience to the external dynamics related to the health emergency.

The risks associated with liquidity tensions arising from potential increases in working capital are also mitigated. As noted, the significant structural effects relate only to the Market BU while they are marginal in the other Business Units. However, the Group has prudently stipulated additional committed and unused lines of credit, with maturity of at least three years, to protect against any further difficulties.



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Consolidated balance sheet ⁽¹⁻²⁾

Assets

<i>millions of euro</i>	Note	06 30 2020	12 31 2019
NON-CURRENT ASSETS			
Tangible assets	1	4,909	4,869
Intangible assets	2	2,449	2,379
Shareholdings carried according to equity method	3	24	38
Other non-current financial assets	3	30	27
Deferred tax assets	4	266	277
Other non-current assets	5	20	25
Total non-current assets		7,698	7,615
CURRENT ASSETS			
Inventories	6	146	184
Trade receivables	7	1,616	1,852
Other current assets	8	872	567
Current financial assets	9	13	10
Current tax assets	10	53	63
Cash and cash equivalents	11	214	434
Total current assets		2,914	3,110
NON-CURRENT ASSETS HELD FOR SALE	12	20	-
TOTAL ASSETS		10,632	10,725

- (1) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of related party transactions on the consolidated financial statements are provided in the statements and discussed in Note 39.
- (2) Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 40 as required by Consob Communication DEM/6064293 of July 28, 2006.

Equity and liabilities

millions of euro	Note	06 30 2020	12 31 2019
EQUITY			
Share capital	13	1,629	1,629
(Treasury shares)	14	(54)	(54)
Reserves	15	1,484	1,325
Result of the year	16	-	389
Result of the period	16	154	-
Equity pertaining to the Group		3,213	3,289
Minority interests	17	369	362
Total equity		3,582	3,651
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	18	3,108	3,307
Employee benefits	19	287	307
Provisions for risks, charges and liabilities for landfills	20	652	676
Other non-current liabilities	21	154	149
Total non-current liabilities		4,201	4,439
Current liabilities			
Trade payables	22	1,086	1,481
Other current liabilities	22	1,133	844
Current financial liabilities	23	561	304
Tax liabilities	24	69	6
Total current liabilities		2,849	2,635
Total liabilities		7,050	7,074
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
TOTAL EQUITY AND LIABILITIES		10,632	10,725

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Consolidated income statement ⁽¹⁻²⁾

<i>millions of euro</i>	Note	01 01 2020 06 30 2020	01 01 2019 06 30 2019
Revenues			
Revenues from the sale of goods and services		3,084	3,610
Other operating income		97	101
Total revenues	26	3,181	3,711
Operating expenses			
Expenses for raw materials and services		2,151	2,660
Other operating expenses		116	115
Total operating expenses	27	2,267	2,775
Labour costs	28	355	354
Gross operating income - EBITDA	29	559	582
Depreciation, amortization, provisions and write-downs	30	278	255
Net operating income - EBIT	31	281	327
Result from non-recurring transactions	32	-	-
Financial balance			
Financial income		6	5
Financial expenses		45	70
Affiliates		1	-
Result from disposal of other shareholdings		-	-
Total financial balance	33	(38)	(65)
Result before taxes		243	262
Income taxes	34	78	87
Result after taxes from operating activities		165	175
Net result from discontinued operations	35	(2)	-
Net result		163	175
Minorities	36	(9)	(9)
Group result of the period	37	154	166
Result per share (in euro):			
- basic		0.0497	0.0534
- basic from continuing operations		0.0502	0.0533
- basic from assets held for sale		(0.0006)	0.0002
- diluted		0.0497	0.0534
- diluted from continuing operations		0.0502	0.0533
- diluted from assets held for sale		(0.0006)	0.0002

- (1) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of related party transactions on the consolidated financial statements are provided in the statements and discussed in Note 39.
- (2) Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 40 as required by Consob Communication DEM/6064293 of July 28, 2006.

Consolidated statement of comprehensive income

millions of euro	06 30 2020	06 30 2019
Net result of the period (A)	163	175
Actuarial gains/(losses) on employee's benefits booked in the Net equity	7	(13)
Tax effect of other actuarial gains/(losses)	(2)	4
Total actuarial gains/(losses) net of the tax effect (B)	5	(9)
Effective part of gains/(losses) on cash flow hedge	19	(7)
Tax effect of other gains/(losses)	(5)	2
Total other gains/(losses) net of the tax effect of companies consolidated on a line-by-line basis (C)	14	(5)
Other gains/(losses) of companies valued at equity net of the tax effect (D)	-	-
Total comprehensive result (A) + (B) + (C) + (D)	182	161
Total comprehensive result attributable to:		
Shareholders of the parent company	173	152
Minority interests	(9)	(9)

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

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Consolidated cash-flow statement

<i>millions of euro</i>	06 30 2020	12 31 2019
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	434	624
Contribution of first consolidation of acquisitions of 2020/2019	14	3
CASH AND CASH EQUIVALENTS	448	627
Operating activities		
Net Result (**)	163	393
Tangible assets depreciation	198	379
Intangible assets amortization	66	123
Fixed assets write-downs/disposals	4	18
Result from affiliates	(1)	(4)
Net financial interests	39	114
Net financial interests paid	(49)	(100)
<i>Net taxes paid (a)</i>	(5)	(235)
<i>Gross change in assets and liabilities (b)</i>	<u>(65)</u>	<u>244</u>
Total change of assets and liabilities (a+b) (*)	(70)	9
Cash flow from operating activities	350	932
Investment activities		
Investments in tangible assets	(139)	(380)
Investments in intangible assets and goodwill	(111)	(247)
Investments in shareholdings and securities (*)	(105)	(56)
Disposal of fixed assets and shareholdings	18	-
Dividends received	-	-
Purchase/sale of treasury shares	-	-
Cash flow from investment activities	(337)	(683)
FREE CASH FLOW	13	249

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

(**) Net Result is exposed net of gains on shareholdings', fixed assets' disposals and from discontinued operations.

millions of euro	06 30 2020	12 31 2019
Financing activities		
Changes in financial assets		
<i>Monetary changes:</i>		
<i>Issuance of loans</i>	-	-
<i>Proceeds from loans</i>	-	7
<i>Other monetary changes</i>	(2)	(2)
Total monetary changes	(2)	5
<i>Non-monetary changes:</i>		
<i>Other non-monetary changes</i>	-	3
Total non-monetary changes	-	3
Total changes in financial assets (*)	(2)	8
Changes in financial liabilities		
<i>Monetary changes:</i>		
<i>Borrowings/bonds issued</i>	209	491
<i>Repayment of borrowings/bond</i>	(192)	(657)
<i>Lease payments</i>	(3)	(17)
<i>Dividends paid by the parent company</i>	(241)	(218)
<i>Dividends paid by the subsidiaries</i>	(9)	(14)
<i>Other monetary changes</i>	(23)	(26)
Total monetary changes	(259)	(441)
<i>Non-monetary changes:</i>		
<i>Amortized cost valuations</i>	2	4
<i>Other non-monetary changes</i>	12	(13)
Total non-monetary changes	14	(9)
Total changes in financial liabilities (*)	(245)	(450)
Cash flow from financing activities	(247)	(442)
CHANGE IN CASH AND CASH EQUIVALENTS	(234)	(193)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR	214	434

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Statement of changes in Group equity

Description <i>millions of euro</i>	Share capital	Treasury Shares	Cash Flow Hedge	
Net equity at December 31, 2018	1,629	(54)	(7)	
<i>Changes of the first half of 2019</i>				
2018 result allocation				
Distribution of dividends				
IAS 19 reserves (*)				
Cash flow hedge reserves (*)			(5)	
Other changes				
Group and minorities result of the period				
Net equity at June 30, 2019	1,629	(54)	(12)	
<i>Changes from 1st july 2019 to 31st december 2019</i>				
Distribution of dividends				
IAS 19 reserves (*)				
Cash flow hedge reserves (*)			(18)	
Other changes				
Group and minorities result of the period				
Net equity at December 31, 2019	1,629	(54)	(30)	
<i>Changes of the first half of 2020</i>				
2019 result allocation				
Distribution of dividends				
IAS 19 reserves (*)				
Cash flow hedge reserves (*)			14	
Other changes				
Group and minorities result of the period				
Net equity at June 30, 2020	1,629	(54)	(16)	

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

	Other Reserves and retained earnings	Result of the period/year	Total Equity pertaining to the Group	Minority interests	Total Net shareholders equity
	1,223	344	3,135	388	3,523
	344	(344)			-
	(218)		(218)	(8)	(226)
	(9)		(9)		(9)
			(5)		(5)
	(12)		(12)	4	(8)
		166	166	9	175
	1,328	166	3,057	393	3,450
				(6)	(6)
	4		4		4
			(18)		(18)
	23		23	(20)	3
		223	223	(5)	218
	1,355	389	3,289	362	3,651
	389	(389)			-
	(241)		(241)	(9)	(250)
	5		5		5
			14		14
	(8)		(8)	7	(1)
		154	154	9	163
	1,500	154	3,213	369	3,582

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Detail of the balance sheet highlighting the first-time consolidation effect of 2020 acquisitions

(NO GAAP MEASURES)

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

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

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highlighting
the first-time
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17221 of March
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	Agritre S.r.l.	Tre Stock S.r.l.	Total effect first consolidation acquisitions 2020	Changes during the period	Consolidated at 06 30 2020
	83	3	86	(46)	4,909
	-	-	11	59	2,449
	-	-	-	(14)	24
	1	-	1	2	30
	1	-	2	(13)	266
	-	-	-	(5)	20
	85	3	100	(17)	7,698
	2	-	2	(40)	146
	9	1	30	(266)	1,616
	6	-	9	296	872
	-	-	-	3	13
	-	-	1	(11)	53
	9	-	14	(234)	214
	26	1	56	(252)	2,914
	-	-	-	20	20
	111	4	156	(249)	10,632
	50	1	51	(250)	3,108
	4	-	7	(7)	-
	-	-	-	(20)	287
	3	-	5	(29)	652
	-	-	3	2	154
	57	1	66	(304)	4,201
	4	-	13	(408)	1,086
	1	-	3	286	1,133
	-	-	-	257	561
	-	-	-	63	69
	5	-	16	198	2,849
	62	1	82	(106)	7,050
	-	-	-	-	-
	62	1	82	(106)	7,050

Consolidated balance sheet

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

Assets

<i>millions of euro</i>	06 30 2020	of which Related Parties (note 39)	12 31 2019	of which Related Parties (note 39)
NON-CURRENT ASSETS				
Tangible assets	4,909		4,869	
Intangible assets	2,449		2,379	
Shareholdings carried according to equity method	24	24	38	38
Other non-current financial assets	30	4	27	4
Deferred tax assets	266		277	
Other non-current assets	20		25	
Total non-current assets	7,698		7,615	
CURRENT ASSETS				
Inventories	146		184	
Trade receivables	1,616	139	1,852	107
Other current assets	872	2	567	1
Current financial assets	13	1	10	1
Current tax assets	53		63	
Cash and cash equivalents	214		434	
Total current assets	2,914		3,110	
NON-CURRENT ASSETS HELD FOR SALE	20		-	
TOTAL ASSETS	10,632		10,725	

Equity and liabilities

millions of euro	06 30 2020	of which Related Parties (note 39)	12 31 2019	of which Related Parties (note 39)
EQUITY				
Share capital	1,629		1,629	
(Treasury shares)	(54)		(54)	
Reserves	1,484		1,325	
Result of the year	-		389	
Result of the period	154		-	
Equity pertaining to the Group	3,213		3,289	
Minority interests	369		362	
Total equity	3,582		3,651	
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	3,108		3,307	
Employee benefits	287		307	
Provisions for risks, charges and liabilities for landfills	652	1	676	1
Other non-current liabilities	154		149	
Total non-current liabilities	4,201		4,439	
Current liabilities				
Trade payables	1,086	30	1,481	29
Other current liabilities	1,133	7	844	7
Current financial liabilities	561		304	
Tax liabilities	69		6	
Total current liabilities	2,849		2,635	
Total liabilities	7,050		7,074	
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-		-	
TOTAL EQUITY AND LIABILITIES	10,632		10,725	

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Consolidated income statement

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

<i>millions of euro</i>	01 01 2020 06 30 2020	of which Related Parties (note 39)	01 01 2019 06 30 2019	of which Related Parties (note 39)
Revenues				
Revenues from the sale of goods and services	3,084	212	3,610	222
Other operating income	97		101	
Total revenues	3,181		3,711	
Operating expenses				
Expenses for raw materials and services	2,151	4	2,660	3
Other operating expenses	116	14	115	16
Total operating expenses	2,267		2,775	
Labour costs	355		354	1
Gross operating income - EBITDA	559		582	
Depreciation, amortization, provisions and write-downs	278		255	
Net operating income - EBIT	281		327	
Result from non-recurring transactions	-		-	
Financial balance				
Financial income	6	3	5	3
Financial expenses	45		70	
Affiliates	1	1	-	
Result from disposal of other shareholdings	-		-	
Total financial balance	(38)		(65)	
Result before taxes	243		262	
Income taxes	78		87	
Result after taxes from operating activities	165		175	
Net result from discontinued operations	(2)		-	
Net result	163		175	
Minorities	(9)		(9)	
Group result of the period	154		166	

The background features a low-angle, upward-looking view of a modern skyscraper with a curved glass facade. The image is overlaid with a solid blue color. A diagonal line splits the image, with the area to the left of the line being a lighter, more vibrant blue, and the area to the right being a darker, more muted blue. The grid pattern of the building's windows is prominent throughout.

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Notes to the Half-yearly financial report

General information

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

The A2A Group mainly operates in the following sectors:

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

This Half-yearly financial report has been prepared in abbreviated form pursuant to IAS 34 and contains the obligatory information required by the same.

Half-yearly financial report

The Half-yearly financial report (hereinafter the **Half-year report**) of the A2A Group at June 30, 2020 is presented in millions of euro; the euro is also the functional currency of the economies in which the Group operates.

The Half-year report of the A2A Group at June 30, 2020 has been prepared:

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

In preparing the Half-year report, the same principles used in the preparation of the consolidated annual report at December 31, 2019 were applied, other than the interpretations described in detail in the paragraph below "Changes in international accounting standards" adopted for the first time on January 1, 2020.

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

This Half-year report at June 30, 2020 was approved on July 30, 2020 by the Board of Directors and has been subjected to audit by EY S.p.A. in accordance with their appointment by the Shareholders' Meeting of June 11, 2015 for the nine years from 2016 to 2024.

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Financial statements

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

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

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

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

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

The formats adopted for the financial statements are the same as those used to prepare the annual consolidated report at December 31, 2019.

Basis of preparation

The Half-year report at June 30, 2020 has been prepared on a historical cost basis, with the exception of those items which under IFRS must or can be measured at fair value.

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

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Changes in international accounting standards

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

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

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

- IFRS 9, IAS 39 and IFRS 7: approved on January 16, 2020 and effective as of January 1, 2020, the supplement to the standards in question provides scope of application to the reforming major interest rate benchmarks with which the European Council for financial stability issued recommendations aimed at strengthening existing reference indices and other potential reference rates based on interbank markets and developing alternative reference rates that are almost risk-free. This integration did not have any impact on the Group's economic and financial results;
- IFRS 3 Business Combinations: approved on April 22, 2020 and effective from financial statements ended as of January 1, 2020, the integration aims to clarify the concept of Business, fundamental in the definition of a business combination. It is clarified that the key concepts of a business are: a) production factors, i.e. any economic resource that creates production or is capable of contributing to the creation of production when one or more processes are applied to it; b) process, i.e. any system, standard, protocol, convention or rule that, when applied to production factors, creates production or is capable of contributing to the creation of production; c) production, i.e. the result of production factors and processes applied to production factors that provide goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary operations. This integration did not have any impact on the Group's economic and financial results;
- IAS 1 and IAS 8: approved on December 10, 2019 and in force from financial statements ending as of January 1, 2020, the integration provides a new definition of information relevance, also introducing the concept of concealing information. In particular, according to this integration, information is relevant if it is reasonable to assume that its omission, incorrect indication or concealment may influence the decisions that the main users of the financial statements prepared for general purposes take on the basis of the financial statements, which provide financial information about the specific entity that prepares the financial statements. This integration has had no effect on the information provided in the Financial Report or on the Group's economic and financial results.

Scope of consolidation

The Half-year report of the A2A Group at June 30, 2020 includes the figures of the parent A2A S.p.A. and those of the subsidiaries over which A2A S.p.A. exercises either direct or indirect control. In addition, companies in which the parent exercises joint control with other entities (joint ventures) and those over which it has a significant influence are consolidated using the equity method.

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

- acquisition by LGH S.p.A. and line-by-line consolidation of Agitre S.r.l. and Tre Stock S.r.l., companies operating in the biomass generation segment;
- line-by-line consolidation of ASM Energia S.p.A., a company operating on the gas and electricity sale market.

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Consolidation policies and procedures

Consolidation policies

Subsidiaries

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

Associates, joint ventures and joint operations

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

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

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

Potential voting rights

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

Treatment of put options on the shares of subsidiaries

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

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

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

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

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

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

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

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

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

Based on the Purchase Price Allocation concluded in June 2017, the percentage probabilities of achieving some earn-out clauses have been revised downwards, resulting in a maximum payout of 7 million euro to minority shareholders resulting in an acquisition value of 109.4 million euro.

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

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

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

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

c) Put options on the shares of Consul System S.p.A.

On October 20, 2016, the acquisition was finalized of 75% of the share capital of Consul System S.p.A., the main independent Italian ESCo (Energy Service Company). The transaction was finalized by ESCo certified by the A2A Group, A2A Calore & Servizi S.r.l., for a total value of 15.1 million euro. A part of this amount, equal to 11.8 million euro, was settled through cash at closing. Subsequently, an integration was made on the purchase price of 3.3 million euro, as a price adjustment based on both the net debt of Consul System S.p.A. and on other well-identified contractual clauses. The integration in question was recognized as an increase in the value of the shareholding.

In January 2017, a payment of 0.8 million euro was made as price adjustment on the net financial position.

It was also established that, by the deadline for approval of the financial statements of Consul System S.p.A. at December 31, 2020, upon the fulfilment of certain conditions, A2A Calore & Servizi S.r.l. may exercise the option to purchase the remaining 25% of the share capital of Consul System S.p.A..

Therefore, in accordance with paragraph 23 of IAS 32, the Group has recognized as a liability the present value of the estimated outlay of 2.4 million euro which it will not be able to avoid if the option is exercised, with a counter-entry to equity attributable to the minority shareholder.

It is specified that this option has been valued based on the contractual conditions envisaged.

In accordance with the provisions of IFRS 3, at December 31, 2017, the Group completed the Purchase price allocation process, allocating to other intangible assets the difference between the amount transferred, measured in accordance with IFRS 3, and the net fair value attributed to assets acquired and liabilities undertaken.

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d) Earn-out on the purchase of special purpose vehicles from Novapower S.p.A. and Impax limited.

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

In accordance with the provisions of IFRS 3, the Group completed the Purchase price allocation processes, allocating to other intangible assets the difference between the amount transferred, measured in accordance with IFRS 3, and the net fair value attributed to assets acquired and liabilities undertaken.

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

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

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

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

f) Options on the shares of Electrometal S.r.l.

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

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

The valuation of this option shall be made on the basis of the final value of 90% of the shares of Electrometal S.r.l..

Therefore, in accordance with paragraph 23 of IAS 32, the Group has recognized as a liability the present value of the estimated outlay of 2.1 million euro which it will not be able to avoid if the option is exercised.

Consolidation procedures

General procedure

The financial statements of the subsidiaries, associates and joint ventures consolidated by the A2A Group are prepared at the end of each reporting period using the same accounting policies as the parent. Any items recognized by using different accounting standards are adjusted during the consolidation process to bring them into line with Group accounting policies. All intra-group balances and transactions, including any unrealized profits arising from transactions between Group companies, are fully eliminated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Latest available summarized figures for joint ventures (consolidated at equity)

Key figures at December 31, 2019 <i>millions of euro</i>	Bergamo Pulita 50%	PremiumGas 50%	Metamer 50%	Ergosud 50% (figures at 12 31 2019) (*)
INCOME STATEMENT				
Revenues	0.04	-	31.0	18.1
Gross operating income	(0.02)	(0.07)	0.9	12.5
% of net revenues	n.s.	n.s.	2.8%	69.1%
Depreciation, amortization and write-downs	-	0.07	0.2	7.8
Net operating income	(0.02)	-	0.7	4.7
Result for the year	(0.03)	-	0.5	1.4
BALANCE SHEET				
Total assets	2.74	4.4	8.2	147.8
Net equity	0.09	1.5	2.1	71.4
Net (debt)	1.20	1.0	0.5	(57.4)

(*) Figures of the last financial statements available.

Key figures at December 31, 2018 <i>millions of euro</i>	Bergamo Pulita 50%	PremiumGas 50%	Metamer 50%	Ergosud 50% (figures at 12 31 2018) (*)
INCOME STATEMENT				
Revenues	0.04	0.04	30.9	21.9
Gross operating income	(0.07)	(0.3)	0.3	14.9
% of net revenues	n.s.	n.s.	1.0%	68.0%
Depreciation, amortization and write-downs	-	-	0.1	8.9
Net operating income	(0.07)	(0.3)	0.2	6.0
Result for the year	(0.10)	(0.3)	0.1	3.6
BALANCE SHEET				
Total assets	2.86	4.6	8.8	153.2
Net equity	0.02	1.5	1.6	70.0
Net (debt)	1.20	1.0	0.3	(66.2)

(*) Figures of the last financial statements available.

Seasonal nature of the business

Given the nature of the Group’s ordinary activities, the interim results can vary as the result of the meteorological conditions during the period.

In this respect reference should be made to the comments on performance by Business Unit presented below.

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Summary of results sector by sector

millions of euro	GENERATION AND TRADING		MARKET		
	01 01 2020 06 30 2020	01 01 2019 06 30 2019	01 01 2020 06 30 2020	01 01 2019 06 30 2019	
Revenues	1,742	2,248	1,262	1,423	
- of which inter-sector	599	720	53	102	
Labour costs	46	45	28	28	
Gross operating income - EBITDA	98	117	113	116	
% of revenues	5.6%	5.2%	9.0%	8.2%	
Depreciation, amortization, provisions and write-downs	(82)	(81)	(28)	(23)	
Net operating income - EBIT	16	36	85	93	
% of revenues	0.9%	1.6%	6.7%	6.5%	
Result from non-recurring transactions					
Financial balance					
Result before taxes					
Income taxes					
Result after taxes from operating activities					
Net result from discontinued operations					
Minorities					
Group result of the period					
Gross investments (1)	19	31	19	11	

1 See the items "Investments" in the schedules on tangible and intangible assets presented in Notes 1 and 2 to the balance sheet.

It should be noted that the income statement data for the first half of 2019 have been reallocated to make them homogeneous to the results by "Business Unit" of the first half of 2020.

	WASTE		NETWORKS AND DISTRICT HEATING		CORPORATE		INTERNATIONAL		ELIMINATIONS		INCOME STATEMENT	
	01 01 2020 06 30 2020	01 01 2019 06 30 2019	01 01 2020 06 30 2020	01 01 2019 06 30 2019	01 01 2020 06 30 2020	01 01 2019 06 30 2019	01 01 2020 06 30 2020	01 01 2019 06 30 2019	01 01 2020 06 30 2020	01 01 2019 06 30 2019	01 01 2020 06 30 2020	01 01 2019 06 30 2019
	535	522	523	590	124	119	1	2	(1,006)	(1,193)	3,181	3,711
	66	73	170	185	118	113	-	-	(1,006)	(1,193)		
	159	159	54	58	67	63	1	1			355	354
	144	135	220	227	(15)	(12)	(1)	(1)			559	582
	26.9%	25.9%	42.1%	38.5%	(12.1%)	(10.1%)	(100.0%)	(50.0%)			17.6%	15.7%
	(53)	(56)	(96)	(83)	(19)	(12)	-	-			(278)	(255)
	91	79	124	144	(34)	(24)	(1)	(1)			281	327
	17.0%	15.1%	23.7%	24.4%	(27.4%)	(20.2%)	(100.0%)	(50.0%)			8.8%	8.8%
											-	-
											(38)	(65)
											243	262
											(78)	(87)
											165	175
											(2)	-
											(9)	(9)
											154	166
	55	46	145	149	16	15	-	-	(4)	-	250	252

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millions of euro	GENERATION AND TRADING		MARKET		
	06 30 2020	12 31 2019	06 30 2020	12 31 2019	
Tangible assets	2,080	2,091	55	52	
Intangible assets	72	79	211	207	
Trade receivables and current financial assets	503	706	707	815	
Trade payables and current financial liabilities	555	838	381	511	

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

	WASTE		NETWORKS AND DISTRICT HEATING		CORPORATE		INTERNATIONAL		ELIMINATIONS		TOTAL GROUP	
	06 30 2020	12 31 2019	06 30 2020	12 31 2019	06 30 2020	12 31 2019	06 30 2020	12 31 2019	06 30 2020	12 31 2019	06 30 2020	12 31 2019
	816	727	1,906	1,906	204	207	-	-	(152)	(114)	4,909	4,869
	37	55	1,982	1,938	149	151	-	-	(2)	(51)	2,449	2,379
	402	361	316	433	184	217	2	2	(485)	(672)	1,629	1,862
	259	306	317	422	615	383	2	2	(482)	(677)	1,647	1,785

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It is noted that the consolidation scope at June 30, 2020 changed compared to December 31, 2019 for the following operations:

- acquisition and line-by-line consolidation by LGH S.p.A. of 100% of the companies Agritre S.r.l. and Tre Stock S.r.l., companies operating in the biomass generation segment;
- line-by-line consolidation of Asm Energia S.p.A., a company operating on the gas and electricity sale market, starting February 1, 2020.

ASSETS

NON-CURRENT ASSETS

1) Tangible assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period					Balance at 06 30 2020
			Invest.	Others changes	Disposals and sales	Amort.	Total changes	
Land	112	1		(1)			(1)	112
Buildings	594	10	3	1		(16)	(12)	592
Plant and machinery	3,591	74	56	45	(1)	(140)	(40)	3,625
Industrial and commercial equipment	45		4			(4)	-	45
Other assets	127		4	3		(15)	(8)	119
Landfills	28			2		(1)	1	29
Construction in progress and advances	131	1	66	(48)			18	150
Leasehold improvements	101		6	1		(8)	(1)	100
Assets for rights of use	140			11		(14)	(3)	137
Total	4,869	86	139	14	(1)	(198)	(46)	4,909
of which:								
Historical cost	11,065	86	139	22	(4)		157	11,308
Accumulated amortization	(5,376)			(8)	3	(198)	(203)	(5,579)
Write-downs	(820)						-	(820)

Tangible assets amounted to 4,909 million euro at June 30, 2020 (4,869 million euro at December 31, 2019) and include the first-time consolidation effects of 86 million euro.

The changes for the period, net of the above effect, recorded a decrease of 46 million euro as follows:

- increase of 139 million euro for capex made in the period as further described below;
- net increase of 14 million euro for other changes due to the increase of 11 million euro in rights of use, the increase of 2 million euro following the acquisition from Italgas Reti S.p.A. of the business unit related to the management of the district heating service in the municipality of Cologno Monzese, an increase of 1 million euro in assets related to decommissioning provisions, following the update of the discount rates used to estimate future decommissioning and restoration costs, the reclassification of 1 million euro from intangible to tangible assets and other negative changes of 1 million euro for reclassification to other items of the financial statements;
- decrease of 1 million euro for disposals made during the period net of accumulated depreciation;
- decrease of 198 million euro for the depreciation charge for the period.

Capex may be analyzed as follows:

- capex in the Networks and District Heating Business Unit totalled 59 million euro and concerned: 40 million euro for the development and maintenance of electricity distribution plants, the extension and reconstruction of the medium and low-voltage network and the installation of new electronic meters; 15 million euro for the development of district heating networks in the areas of Milan, Brescia and Bergamo; 3 million euro interventions on the fiber optic network and 1 million euro for work on the gas transport network;
- capex in the Waste Business Unit amounted to 54 million euro and refer to: 45 million euro mainly for work on the plants of Parona, Brescia, Como, Silla 2, Corteolona, Acerra e Caivano, Cavaglià, Giussago, Bedizzole e Lacchiarella; 6 million euro for the acquisition of mobile means for waste collection and 3 million euro for the acquisition of collection facilities;

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- capex in the Generation and Trading Business Unit increased 17 million euro and concerned: 13 million euro capex on thermoelectric plants, 2 million euro capex on hydroelectric plants, and 2 million euro capex on renewable energy plants;
- capex in the Market Business Unit increased 7 million euro and concerned: 3 million euro the Led Efficiency Plan with new LED technology light sources mainly in the municipalities of Pero, Bisignano, Crevoladossola, Cornaredo and Messina, 3 million euro the energy efficiency plan at customer premises and 1 million euro for work on the electric vehicle recharging network;
- capex in the Corporate Business Unit amounting to 2 million euro mainly concerned work on buildings in the Milan area and the new Cremona Technology Hub.

Tangible assets include Assets for rights of use totalling 137 million euro (140 million euro at December 31, 2019), recognized in accordance with IFRS 16 and for which the outstanding payable to lessors at June 30, 2020 amounted to 138 million euro (141 million euro at December 31, 2019). Below is a breakdown of Assets for rights of use deriving from operating and financial leases at June 30, 2020:

Assets consisting of rights of use <i>millions of euro</i>	Balance at 12 31 2019	Changes during the period			Balance at 06 30 2020
		Other changes	Amortization	Total changes	
Land	17	1	(2)	(1)	16
Buildings	44	7	(4)	3	47
Plant and machinery	34	-	(2)	(2)	32
Industrial, commercial equipment and other goods	24	1	(1)	-	24
Vehicles	21	2	(5)	(3)	18
Total	140	11	(14)	(3)	137

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

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

With regard to large-scale diversion hydroelectric concessions, it is noted that when they are converted into law (Law no. 12/2019) with amendments to Decree Law December 14, 2018, no. 135 (Simplification Decree Law), the Legislator intervened in article 11-quater with overall review of the regulations governing large-scale diversion hydroelectric concessions (> 3 MW), as explained in greater detail in paragraph 6) Regulatory Changes and Impacts on the Business Units of the A2A Group - Generation and Trading Business Unit. The Group is continuing to analyze the impact of regulatory amendments, also in light of the new regulations issued in the first half of 2020, and confirms, to date, that the amounts recognized in the financial statements for dry and wet works related to hydroelectric concessions are prudent and recoverable also in accordance with the new regulations.

2) Intangible assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period					Balance at 06 30 2020
			Invest.	Recl./Other changes	Disposals/ Sales	Amort.	Total changes	
Industrial patents and intellectual property rights	31		5	8		(9)	4	35
Concessions, licences, trademarks and similar rights	1,616		73	2	(3)	(45)	27	1,643
Goodwill	374							374
Assets in progress	62		31	(12)			19	81
Other intangible assets	296	11	2	19		(12)	9	316
Total	2,379	11	111	17	(3)	(66)	59	2,449

Intangible assets amounted to 2,449 million euro at June 30, 2020 (2,379 million euro at December 31, 2019) and include the first-time consolidation effects of 11 million euro.

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

The changes for the period, net of the above effect, recorded an overall increase of 59 million euro as follows:

- increase of 111 million euro for capex made in the period as further described below;
- net increase of 17 million euro for other changes, due to the increase of 20 million euro in environmental certificates in the industrial portfolio and the decrease of 1 million euro due to reclassification from intangible to tangible assets and the decrease of 2 million euro for reclassification to other items of the financial statements;
- decrease of 3 million euro (net of the related accumulated amortization/depreciation) due for 2 million euro to the sale to Italgas Reti S.p.A. of the business unit relative to the management of the network and natural gas distribution service in the municipalities falling within the territorial area (Atem) Alessandria 4 and for 1 million euro for disposals during the period;
- a decrease of 66 million euro for period amortisation/depreciation.

More specifically, capex of intangible assets relate to the following:

- capex in the Networks and District Heating Business Unit of 81 million euro are: for development and maintenance work on the plants of the gas distribution segment and the replacement of low and medium pressure underground piping for 39 million euro; work on the water transport and distribution network, on the sewage networks and on the purification plants for 30 million euro; the development of district heating networks in the Como and Monza areas for 2 million euro and the implementation of information systems for 10 million euro;
- capex in the Corporate Business Unit increased 14 million euro due to the implementation of information systems;
- capex in the Market Business Unit increased 12 million euro, involving 10 million euro for the implementation of information systems, as well as 2 million euro for new projects for electric mobility, LED and renewable sources;
- for the Waste Business Unit, the increase was 2 million euro and mainly relates to the implementation of information systems;
- for the Generation and Trading Business Unit, the increase was 2 million euro and concerned the implementation of information systems.

Other intangible assets include customer lists arising on the acquisition of customer portfolios by Group companies. These values are amortized based on an estimate of the benefits that will arise in future years, taking into account indicators such as the retention rate and churn rate relating to

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specific types of customers. In particular, the amount shown in the financial statements of 184 million euro is attributable for 110 million euro to the ACSM-AGAM Group customer list and for 42 million euro to the customer list of A2A Energia S.p.A., 18 million euro to the customer lists of A2A Recycling S.r.l. and LA BI.CO DUE S.r.l., 10 million euro to the customer list of Asm Energia S.p.A., 3 million euro to the customer list of Suncity Energy S.r.l. and 1 million euro to the customer list of LumEnergia S.p.A.

Goodwill

At June 30, 2020, goodwill amounted to 374 million euro:

CGU <i>millions of euro</i>	Balance at 12 31 2019	Changes during the period					Balance at 06 30 2020
		Reclassific.	First-time consolid. acquis. 2020	PPA Effect	Write- downs	Total changes	
A2A Reti Elettriche	-					-	-
A2A Ambiente	264					-	264
A2A Reti Gas	41					-	41
A2A Gas	31					-	31
A2A Calore	22					-	22
Energia Elettrica	1					-	1
Total	359	-	-	-	-	-	359
First-time Consolidation Effects							
Electrometal	15					-	15
Total	15	-	-	-	-	-	15
Total Goodwill	374	-	-	-	-	-	374

In 2019, the A2A Group completed the acquisition of Electrometal S.r.l. that resulted in the recognition of goodwill of 15 million euro.

This acquisition is part of the provisions of IFRS 3 and at June 30, 2020, the Purchase Price Allocation has not yet been completed, which will be completed in the timing envisaged by the standard.

The A2A Group conducts the impairment test at least once a year.

As explained in further detail in the paragraph Health Emergency COVID-19 Virus and the Effects of the pandemic on half-year and annual results and the value of assets (IAS 36) to which reference is made, for the purposes of applying IAS 36, in addition to the internal and external impairment indicators normally monitored, the effect was assessed of the spread of the COVID-19 pandemic on the recoverable amount of the CGU subject to impairment test at December 31, 2019.

More specifically, for the main CGUs, both the negative impacts, relative, for example relative to the slow-down of commercial activities, the reduction of contestable energy demand and the worsening of the scenario have been analysed, as well as the positive impacts relative to the implementation of the recovery plan.

In light of the analyses carried out on the basis of the evidence available at June 30, 2020 and their foreseeable evolution, no critical issues have emerged and it is not considered at present, that the effects of the COVID-19 pandemic constitute a loss indicator such as to require specific verifications on the recoverability of assets.

3) Shareholdings and other non-current financial assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period	Balance at 06 30 2020	of which included in the NFP	
					12 31 2019	06 30 2020
Shareholdings carried according to equity method	38		(14)	24	-	-
Other non-current financial assets	27	1	2	30	20	20
Total shareholdings and other non-current financial assets	65	1	(12)	54	20	20

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

Shareholdings carried according to equity method millions of euro	TOTAL
Balance at December 31, 2019	38
First-time consolidation effect acquisitions 2020	-
Changes in the period:	
- acquisitions and capital increases	
- valuations at equity	
- write-downs	
- dividends received from shareholdings in companies carried at equity	
- sales	
- other changes	(14)
- reclassifications	
Total changes for the period	(14)
Balance at June 30, 2020	24

The decrease in Shareholding carried according to equity method was equal to 14 million euro and was due to the change in the consolidation method of Asm Energia S.p.A.

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

Other non-current financial assets had a balance of 30 million euro at June 30, 2020, an increase of 3 million euro compared to the figure at December 31, 2019.

At June 30, 2020, Other non-current financial assets refer for 20 million euro to medium/long-term financial receivables of which 3 million euro related to loans to some municipalities and to leasing receivables in application of IFRS 16, 4 million euro to the Municipality of Brescia, concerning the management of public lighting in application of IFRIC 12, and 7 million euro deriving from the management of the Cedrasco biocube plant by the subsidiary Bioase, as well as 7 million euro of shareholdings in other companies; for details, reference is made to annex no. 5 List of shareholdings in other companies.

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4) Deferred tax assets

<i>millions of euro</i>	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Changes net during the period	Balance at 06 30 2020
Deferred tax assets	277	2	(13)	266

Deferred tax assets amounted to 266 million euro (277 million euro at December 31, 2019) and showed a decrease of 11 million euro.

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

At June 30, 2020, the amounts relative to deferred tax assets/deferred tax liabilities have been expressed as net (offsetting) as per IAS 12 standards.

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

<i>millions of euro</i>	Consolidated financial statements 06 30 2020
Detail of deferred tax assets/liabilities	
Deferred tax liabilities	
Measurement differences for tangible assets	526
Adoption of the finance lease standard (IFRS 16)	1
Application of the financial instrument standard (IFRS 9)	-
Measurement differences for intangible assets	71
Deferred capital gains	-
Employee leaving entitlement (TFR)	2
Goodwill	6
Other deferred tax liabilities	4
Total deferred tax liabilities (A)	610
Deferred tax assets	
Taxed risk provisions	98
Measurement differences for tangible assets	570
Application of the financial instrument standard (IFRS 9)	(2)
Bad debt provision	8
Measurement differences for intangible assets	5
Grants	17
Goodwill	179
Other deferred tax assets	1
Total deferred tax assets (B)	876
NET EFFECT DEFERRED TAX ASSETS/LIABILITIES (B-A)	266

5) Other non-current assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period	Balance at 06 30 2020	of which included in the NFP	
					12 31 2019	06 30 2020
Non-current derivatives	2		(2)	-	2	-
Other non-current assets	23		(3)	20	-	-
Total other non-current assets	25	-	(5)	20	2	-

At June 30, 2020, this item decreased by 5 million euro compared to the end of the previous year.

Non-current derivatives were nil at June 30, 2020 and were down by 2 million euro compared to the previous year-end.

Other non-current assets amounted to 20 million euro. The item essentially consists of security deposits and costs already incurred, but pertaining to future years.

CURRENT ASSETS

6) Inventories

millions of euro	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Changes during the period	Balance at 06 30 2020
- Materials	75		6	81
- Material obsolescence provision	(18)		(2)	(20)
Total material	57		4	61
- Fuel	112		(34)	78
- Other	4	2	1	7
Raw and ancillary materials and consumables	173	2	(29)	146
Third-party fuel	11		(11)	-
Total inventories	184	2	(40)	146

Inventories amounted to 146 million euro (184 million euro at December 31, 2019), net of the related obsolescence provision for 20 million euro (18 million euro at December 31, 2019).

Inventories show a total decrease of 38 million euro, as detailed below:

- 34 million euro related to the decrease in inventories of fuels (which include the inventories of fuels for the production of electricity, as well as the gas inventories for the sale and storage thereof);
- 11 million euro the decrease in coal inventories at third-party warehouses;
- 6 million euro the increase in stocks of materials;
- 2 million euro the increase in the material obsolescence provision;
- other increases amounting to 3 million euro.

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7) Trade receivables

<i>millions of euro</i>	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Changes during the period	Balance at 06 30 2020
Trade receivables - invoices issued	756	35	127	918
Trade receivables - invoices to be issued	1,204	-	(383)	821
(Bad debts provision)	(108)	(5)	(10)	(123)
Total trade receivables	1,852	30	(266)	1,616

At June 30, 2020, Trade receivables amounted to 1,616 million euro (1,852 million euro at December 31, 2019), with a decrease of 266 million euro, net of the first consolidations of 30 million euro. In detail, the changes were as follows:

- for 264 million euro, the decrease in trade receivables from customers, which at June 30, 2020, showed a balance of 1,494 million euro (1,758 million euro at December 31, 2019);
- for 33 million euro, the increase in receivables from the Municipalities of Milan and Brescia; this item had an overall balance of 117 million euro (84 million euro in the previous year);
- for 5 million euro, the decrease in receivables from associates, which had a balance of 1 million euro (6 million euro at the end of the previous year).

Note that the Group occasionally performs non-recourse credit assignments. At June 30, 2020, just like at December 31, 2019, there were no receivables which had not yet fallen due, sold by the Group on a definitive basis and derecognised in accordance with the requirements of IFRS 9. The Group has no rotating factoring programs.

The Bad debts provision, calculated in compliance with IFRS 9, amounted to 123 million euro and showed a net increase of 15 million euro compared to December 31, 2019, of which 5 million euro attributable to the first-time consolidation effects. This provision is considered adequate to cover the risks to which it relates.

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

<i>millions of euro</i>	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Provisions	Utilizations	Other changes	Balance at 06 30 2020
Bad debts provision	108	5	16	(7)	1	123

The following is the aging of trade receivables:

<i>millions of euro</i>	06 30 2020	12 31 2019
Trade receivables of which:	1,616	1,852
Current	567	546
Past due of which:	351	210
- Past due up to 30 days	104	41
- Past due from 31 to 180 days	122	61
- Past due from 181 to 365 days	28	34
- Past due over 365 days	97	74
Invoices to be issued	821	1,204
Bad debts provision	(123)	(108)

8) Other current assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period	Balance at 06 30 2020	of which included in the NFP	
					12 31 2019	06 30 2020
Current derivatives (commodity derivatives)	371		281	652	-	-
Other current assets of which:	196	9	15	220		
- receivables from Cassa per i Servizi Energetici e Ambientali	69		(15)	54		
- advances to suppliers	39		(10)	29		
- receivables from employees	1			1		
- tax receivables	14	6	1	21		
- receivables related to future years	23		23	46		
- receivables from Ergosud	2			2		
- receivables from social security entities	3			3		
- stamp office	1			1		
- receivables for damage compensation	2		(1)	1		
- receivables for COSAP advances	2			2		
- receivables for security deposits	2			2		
- receivables for RAI fee	3		5	8		
- other sundry receivables	35	3	12	50		
Total other current assets	567	9	296	872	-	-

Other current assets showed a balance of 872 million euro compared to 567 million euro at December 31, 2019, highlighting an increase of 305 million euro.

Current derivatives showed an increase of 281 million euro related to the increase in commodity derivatives due to both the change in the fair value measurement at the end of the reporting period and the change in quantities covered. Other current liabilities include 639 million euro in Current derivatives.

Receivables from Cassa per i Servizi Energetici e Ambientali, amounting to 54 million euro (69 million euro at December 31, 2019), mainly refer to receivables for equalizations pertaining to both the first half of 2020 and to outstanding receivables for equalizations pertaining to previous years and receivables for tariff components, net of collections made in the current year.

Tax receivables, amounting to 21 million euro, mainly relate to tax receivables from the tax authorities for excise and withholding taxes.

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

9) Current financial assets

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period	Balance at 06 30 2020	of which included in the NFP	
					12 31 2019	06 30 2020
Other financial assets	9	-	3	12	9	12
Other financial assets from related parties	1	-	-	1	1	1
Other financial assets from assets held for sale	-	-	-	-	-	-
Total current financial assets	10	-	3	13	10	13

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Current financial assets amounted to 13 million euro (10 million euro at December 31, 2019). This item mainly refers to financial receivables of the LGH Group from minority shareholders and third parties.

10) Current tax assets

<i>millions of euro</i>	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Changes during the period	Balance at 06 30 2020
Current tax assets	63	1	(11)	53

At June 30, 2020, this item amounted to 53 million euro (63 million euro at December 31, 2019) and refers to IRES and IRAP receivables for amounts requested for reimbursement on payments of previous years, and the remaining credit for Robin Tax paid in previous years and that will be recovered in subsequent years.

11) Cash and cash equivalents

<i>millions of euro</i>	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period	Balance at 06 30 2020	<i>of which included in the NFP</i>	
					12 31 2019	06 30 2020
Cash and cash equivalents	434	14	(234)	214	434	214

Cash and cash equivalents at June 30, 2020 represent the sum of the Group's active bank and postal balances; the positive change related to the first-time consolidation effect of 2020 acquisitions was equal to 14 million euro.

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

12) Non-current assets held for sale

<i>millions of euro</i>	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period	Balance at 06 30 2020	<i>of which included in the NFP</i>	
					12 31 2019	06 30 2020
Non-current assets held for sale	-		20	20		

At June 30, 2020, Non-current assets held for sale amounted to 20 million euro (no value at December 31, 2019) and refer to the shareholding of 2.16% of the share capital of Ascopiave S.p.A. for which the Group exercised the right of withdrawal on June 18, 2020.

EQUITY AND LIABILITIES

EQUITY

Equity, which amounted to 3,582 million euro at June 30, 2020 (3,651 million euro at December 31, 2019), is set out in the following table:

millions of euro	Balance at 12 31 2019	Changes during the period	Balance at 06 30 2020
Equity pertaining to the Group:			
Share capital	1,629	-	1,629
(Treasury shares)	(54)	-	(54)
Reserves	1,325	159	1,484
Group result of the period	389	(235)	154
Total equity pertaining to the Group	3,289	(76)	3,213
Minority interests	362	7	369
Total equity	3,651	(69)	3,582

The change of the Shareholders’ equity was overall negative for 69 million euro. The net profit for the period generated a positive effect of 154 million euro, offset by the distribution of 241 million euro in dividends. Furthermore, the net fair value gain on the measurement of cash flow hedges (14 million euro) and the net increase in minority interests (7 million euro) also affected shareholders’ equity.

13) Share capital

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

14) Treasury shares

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

15) Reserves

millions of euro	Balance at 12 31 2019	Changes during the period	Balance at 06 30 2020
Reserves	1,325	159	1,484
of which:			
Change in the fair value of cash flow hedge derivatives and fair value bonds	(41)	19	(22)
Tax effect	11	(5)	6
Cash flow hedge reserves	(30)	14	(16)
Change in the IAS 19 Revised reserve - Employee Benefits	(77)	7	(70)
Tax effect	20	(2)	18
IAS 19 Revised reserve - Employee Benefits	(57)	5	(52)

Reserves, which amounted to 1,484 million euro (1,325 million euro at December 31, 2019), consist of the legal reserve, extraordinary reserves, and the retained earnings of subsidiaries.

This item also includes the cash flow hedge reserve, negative for 16 million euro, which refers to the period-end measurement of derivatives qualifying for hedge accounting, and the fair value measurement of the Bonds in foreign currency net of the tax effect.

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The balance also includes negative reserves of 52 million euro arising from the adoption of IAS 19 Revised Employee Benefits which requires actuarial profits and losses to be recognized directly in an equity reserve.

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

16) Result of the period

This item consists of the profit for the period of 154 million euro.

17) Minority interests

<i>millions of euro</i>	Balance at 12 31 2019	Changes during the period	Balance at 06 30 2020
Minority interests	362	7	369

Minority interests amounted to 369 million euro (362 million euro at December 31, 2019) and mainly represent the portions of capital, reserves and result pertaining to minority shareholders related to third-party shareholders of the LGH Group and of the ACSM-AGAM Group.

The net increase for the period amounted to 7 million euro.

LIABILITIES

NON-CURRENT LIABILITIES

18) Non-current financial liabilities

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period	Balance at 06 30 2020	of which included in the NFP	
					12 31 2019	06 30 2020
Non-convertible bonds	2,550		(348)	2,202	2,550	2,202
Payables to banks	638	51	102	791	638	791
Non-current financial payables for rights of use	117		(4)	113	117	113
Payables to other lenders	2		-	2	2	2
Total non-current financial liabilities	3,307	51	(250)	3,108	3,307	3,108

Non-current financial liabilities amounted to 3,108 million euro (3,307 million euro at December 31, 2019), a decrease of 250 million euro, net of the first-time consolidation effects of acquisitions in the first half of 2020.

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

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

The net decrease in the non-current component of Non-convertible bonds, amounting to 348 million euro compared with December 31, 2019, is mainly due to the reclassification under Current financial liabilities of the bond maturing in January 2021, and the increase in the value of the bond in yen.

Non-current payables to banks amounted to 791 million euro, an increase of 153 million euro compared to the previous year-end, including 51 million euro due to the first-time consolidation effects during the period and 102 million euro related to the stipulation of new loans with banks.

Non-current financial payables for rights of use amounted to 113 million euro, down 4 million euro compared to December 31, 2019.

Finally, payables to other lenders amounted to 2 million euro and mainly refer to loans granted by the Lombardy Region and Cassa Depositi e Prestiti.

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

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millions of euro	Nominal value	Book value	Current portion	Non-current portion	Fair value
Bonds	2,567	2,588	386	2,202	2,720
Bank loans and other financing (excluding financial payables for rights of use)	975	975	153	822	980
Total	3,542	3,563	539	3,024	3,700

19) Employee benefits

The balance on this item amounted to 287 million euro (307 million euro at December 31, 2019) with changes as follows during the period:

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Provisions	Utilizations	Other changes	Balance at 06 30 2020
Employee leaving entitlement (TFR)	159		15	(10)	(13)	151
Employee benefits	148			(5)	(7)	136
Total employee benefits	307	-	15	(15)	(20)	287

The change during the period is attributable for 15 million euro to provisions for the period, for 15 million euro to the decrease due to disbursements for the first half of the year and for 15 million euro to the net decrease mainly related to payments for the period to pension funds. In addition, actuarial valuations for the period include the decrease resulting from actuarial gains/losses for 6 million euro.

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

	2020	2019
Discount rate	from 0.02% to 0.7%	from -0.1% to 0.8%
Annual inflation rate	1.2%	1.2%
Annual seniority bonus increase rate	2.0%	2.0%
Annual additional months increase rate	0.0%	0.0%
Annual cost of electricity increase rate	2.0%	2.0%
Annual cost of gas increase rate	0.0%	0.0%
Annual salary increase rate	1.0%	1.0%
Annual TFR increase rate	2.4%	2.4%
Average annual increase rate of supplementary pensions	1.1%	1.1%
Annual turnover frequencies	from 4.0% to 5.0%	from 4.0% to 5.0%
Annual TFR advance frequencies	from 2.0% to 2.5%	from 2.0% to 2.5%

It is noted that:

- the discount rate used by the Group varies from company to company on the basis of the average financial term of the bond. The discount rate used is that corresponding to Iboxx Corporate AA;
- the annual rate of salary increase applied exclusively to companies with fewer than 50 employees on average in 2006 was determined on the basis of the reference data communicated by Group companies;
- the annual rate of TFR increase, according to art. 2120 of the Civil Code, is equal to 75% of inflation plus 1.5 percentage points;
- the annual advance and turnover frequencies are derived from historical experiences of the Group and the frequencies arising from the experience of the Actuary on a significant number of similar companies;

- for the demographic technical bases, it is noted that:
 - for death, the tables AS62 (Electricity and gas discount), RG48 (TFR and other plans) and TG62 (Premungas) were used;
 - for inability, the INPS tables divided by age and gender were used;
 - for retirement, the 100% parameter was used upon reaching the requirements of AGO (Obligatory General Insurance);
 - for the probability of leaving the family, the table in the INPS model was used for projections to 2010;
 - for the frequency of the various structures of surviving nuclei and average age of members, the table in the INPS model was used for projections to 2010.

20) Provisions for risks, charges and liabilities for landfills

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Provisions	Releases	Utilizations	Other changes	Balance at 06 30 2020
Decommissioning provisions	264	3			(3)	2	266
Landfill closing and post-closing expense provisions	196				(5)		191
Tax provisions	36						36
Personnel lawsuits and disputes provisions	42		1	(1)	(3)	1	40
Other risk provisions	138	2	3	(5)	(12)	(7)	119
Provisions for risks, charges and liabilities for landfills	676	5	4	(6)	(23)	(4)	652

At June 30, 2020, provision for risks, charges and liabilities for landfills amounted to 652 million euro and showed a decrease of 24 million euro.

Decommissioning provisions, which amounted to 266 million euro, include charges for costs of dismantling and recovery of production sites mainly related to thermoelectric plants and waste-to-energy plants. The changes for the period concerned uses for 3 million euro, to cover the expenses incurred during the reporting period and other increases for 2 million euro, which refer mainly to the effects of the update of the discount rates used to estimate the future costs of dismantling and restoration of the sites having Tangible assets as balancing entry. The first-time consolidation effects of the period amounted to 3 million euro.

The Landfill closing and post-closing expense provisions, which amounted to 191 million euro, refer to all the costs that will have to be incurred in the future for the sealing of the landfills in cultivation at the reporting date and for the subsequent post-operative management, thirty-year and fifty-year, provided by the AIA (Integrated Environmental Authorization). The changes during the period were mainly to uses for 5 million euro, which represent actual outlays for the period.

Tax Provisions, which amounted to 36 million euro, refer to provisions for pending or potential litigation with the tax authorities or territorial entities for direct and indirect taxes, levies and excises. This item is unchanged compared to December 31, 2019.

Personnel lawsuits and disputes provisions, which totalled 40 million euro, refer mainly to litigation with third parties for 36 million euro and employees for 2 million euro to cover liabilities that may arise from pending litigation, lawsuits with Social Security Institutions for 2 million euro related to social security contributions that the Group believes it will not be required to pay and are the subject of specific disputes.

Other provisions, which amounted to 119 million euro, refer to provisions relating to public water derivation fees for 47 million euro, to the mobility provision for the costs arising from the corporate restructuring plan, for 9 million euro, as well as other provisions for 63 million euro.

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21) Other non-current liabilities

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period	Balance at 06 30 2020	of which included in the NFP	
					12 31 2019	06 30 2020
Other non-current liabilities	140	3	-	143	-	-
Non-current derivatives	9		2	11	9	11
Total other non-current liabilities	149	3	2	154	9	11

At June 30, 2020, the item in question increased by 5 million euro compared to the previous year, of which 3 million euro related to the first-time consolidation effects.

Other non-current liabilities, which showed a balance of 143 million euro, refer to security deposits from customers for 67 million euro, to liabilities pertaining to future years for 6 million euro, to medium/long-term payables to suppliers for 3 million euro, as well as other non-current liabilities for 67 million euro, which mainly include long-term payables, contracts for acquisitions completed in the photovoltaic sector by the subsidiary A2A Rinnovabili in recent years.

Non-current derivatives amounted to 11 million euro and showed a positive change of 2 million euro deriving from the fair value valuation of financial instruments at period-end.

CURRENT LIABILITIES

22) Trade payables and other current liabilities

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period	Balance at 06 30 2020	of which included in the NFP	
					12 31 2019	06 30 2020
Advances	3			3		
Payables to suppliers	1,478	13	(408)	1,083		
Total trade payables	1,481	13	(408)	1,086	-	-
Payables to pension and social security institutions	43		(1)	42		
Current derivatives (commodity derivatives)	380		259	639		
Other current liabilities of which:	421	3	28	452		
- Payables to personnel	85	1	(4)	82		
- Payables to Cassa per i Servizi Energetici e Ambientali	105		(11)	94		
- Tax payables	66	2	49	117		
- Payables for tax transparency	7			7		
- Payables for energy tariff components	73		(21)	52		
- Payables for A.T.O.	3			3		
- Payables to customers for work to be performed	17			17		
- Payables to customers for interest on security deposits	2			2		
- Payables to third-party shareholders	4			4		
- Payables for the purchase of equity investments	1			1		
- Payables for auxiliary services	10		5	15		
- Payables for collections to be allocated	10		(1)	9		
- Payables to insurance companies	4			4		
- Payables for excise compensation	-			-		
- Payables for environmental compensation	3			3		
- Payables for RAI fee	7		8	15		
- Sundry payables	24		3	27		
Total other current liabilities	844	3	286	1,133	-	-
Total trade payables and other current liabilities	2,325	16	(122)	2,219	-	-

Trade receivables and other current liabilities amounted to 2,219 million euro (2,325 million euro at December 31, 2019), representing a decrease of 106 million euro.

Trade payables amounted to 1,086 million euros and show a decrease of 395 million euro compared to the close of the previous financial year.

Payables to social security institutions amounted to 42 million euro, down 1 million euro compared to December 31, 2019 and relate to the Group's debt position with social security and pension institutions, related to contributions of the month of December 2019 not yet paid.

Current derivative instruments amounted to 639 million euro (380 million euro at December 31, 2019) and refer to the fair value valuation of commodity derivatives. The increase is due both to the increase in the fair value valuation of the year and to the change in the amounts covered. Other current assets included 652 million euro in Current derivatives.

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Other current liabilities mainly refer to:

- payables to employees for 82 million euro (85 million euro at December 31, 2019), relating to payables to employees for the productivity bonus accrued during the period, as well as the expense for holidays accrued but not taken at June 30, 2020;
- payables to the CSEA - Cassa per i Servizi Energetici e Ambientali for 94 million euro (105 million euro at December 31, 2019) regarding the payable for the tariff components, invoiced and not yet paid, as well as the payable for equalization liabilities related both to prior years and the period under review;
- tax liabilities for 117 million euro (66 million euro at December 31, 2019) mainly related to payables to the tax authorities for excise, withholding taxes and VAT;
- payables for fiscal transparency for 7 million euro to the associate Ergosud S.p.A., unchanged compared to December 31, 2019;
- payables for electricity tariff components for 52 million euro (73 million euro at December 31, 2019);
- payables for A.T.O. for 3 million euro (3 million euro at December 31, 2019) relating to the payment of the fee for concessions regarding the management of the water service;
- payables to customers for work to be performed for 17 million euro (17 million euro at December 31, 2019) related to estimates already collected from customers for work that has not been completed yet.

23) Current financial liabilities

millions of euro	Balance at 12 31 2019	First-time consolid. effect acquisitions 2020	Changes during the period	Balance at 06 30 2020	of which included in the NFP	
					12 31 2019	06 30 2020
Non-convertible bonds	46		340	386	46	386
Payables to banks	233		(84)	149	233	149
Current financial payables for rights of use	25		-	25	25	25
Financial payables to related parties	-		-	-	-	-
Payables to other lenders	-		1	1	-	1
Total current financial liabilities	304	-	257	561	304	561

Current financial liabilities amounted to 561 million euro compared to 304 million euro recorded at December 31, 2019 and showed an increase of 257 million euro.

Non-convertible bonds showed a net increase of 340 million euro. The net increase is mainly due to the short-term reclassification of the bond with nominal value of 351 million euro and a coupon of 4.375% maturing in January 2021.

Current payables to banks amounted to 149 million euro, down 84 million euro, mainly due to repayments of credit lines and portions of loans made during the period, net of the reclassification of existing loans from medium/long-term to short-term.

Current financial payables for rights of use amounted to 25 million euro, unchanged compared to December 31, 2019.

Lastly, Payables to other lenders amounted to 1 million euro (nil at December 31, 2019).

24) Tax liabilities

millions of euro	Balance at 12 31 2019	First-time consolidation effect acquisitions 2020	Changes during the period	Balance at 06 30 2020
Tax liabilities	6	-	63	69

Tax payables amounted to 69 million euro (6 million euro at December 31, 2019) representing an increase of 63 million euro over the previous year-end.

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Net debt

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

The following table provides details of net debt:

<i>millions of euro</i>	Note	06 30 2020	First-time consolidation effect acquisitions 2020	12 31 2019
Bonds - non-current portion	18	2,202		2,550
Bank loans - non-current portion	18	791	51	638
Non-current financial payables for rights of use	18	113		117
Non-current payables to other lenders	18	2		2
Other non-current liabilities	21	11		9
Total medium/long-term debt		3,119	51	3,316
Non-current financial assets - related parties	3	(4)		(4)
Non-current financial assets	3	(16)	(1)	(16)
Other non-current assets	5	-		(2)
Total medium/long-term financial receivables		(20)	(1)	(22)
Total non-current net debt		3,099	50	3,294
Bonds - current portion	23	386		46
Bank loans - current portion	23	149		233
Current financial payables for rights of use	23	25		24
Current amounts due to other providers of finance	23	1		1
Current financial liabilities - related parties	23	-		-
Total short-term debt		561	-	304
Other current financial assets	9	(12)		(9)
Current financial assets - related parties	9	(1)		(1)
Total short-term financial receivables		(13)	-	(10)
Cash and cash equivalents	11	(214)	(14)	(434)
Total current net debt		334	(14)	(140)
Net debt		3,433	36	3,154

The Group net financial position was 3,433 million euro.

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

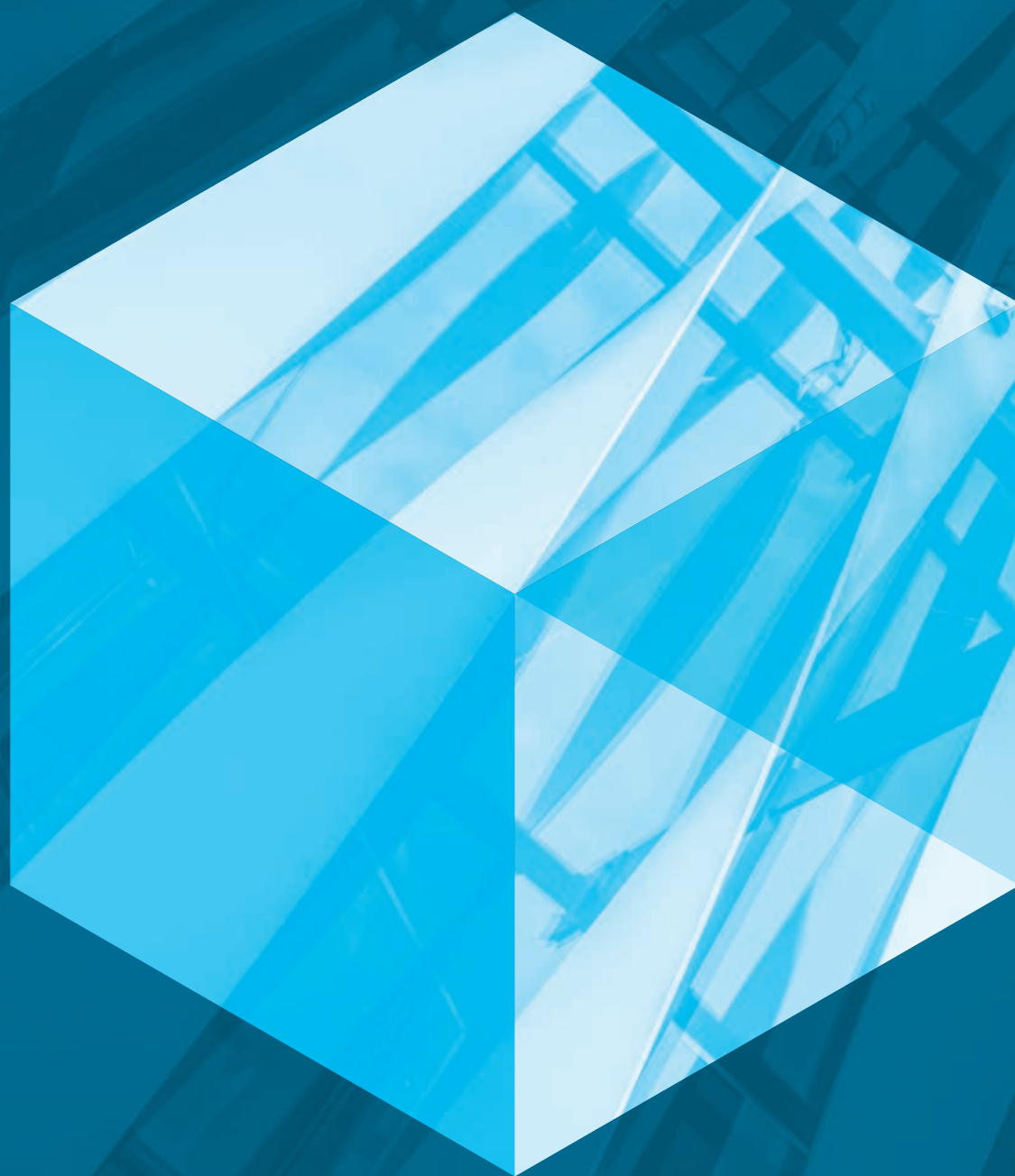
millions of euro	12 31 2019	Cash flow	Non-cash flow			06 30 2020
			First-time consolid. effect acquisitions 2020	Change in fair value	Other changes	
Bonds	2,596	(11)	-	1	2	2,588
Financial payables	1,015	2	51	-	13	1,081
Other liabilities	9	-	-	2	-	11
Financial assets	(30)	(2)	(1)	-	-	(33)
Other assets	(2)	-	-	2	-	-
Net liabilities deriving from financing activities	3,588	(11)	50	5	15	3,647
Cash and cash equivalents	(434)	234	(14)	-	-	(214)
Net debt	3,154	223	36	5	15	3,433

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The consolidation scope at June 30, 2020 changed compared to the corresponding period of the previous year due to the following operations:

- acquisition and line-by-line consolidation by LGH S.p.A. of 100% of the companies Agitre S.r.l. and Tre Stock S.r.l., companies operating in the biomass generation segment;
- line-by-line consolidation of Asm Energia S.p.A., a company operating on the gas and electricity sale market, starting February 1, 2020;
- acquisition and line-by-line consolidation of 100% of Areslab S.r.l. and 90% of Electrometal S.r.l., companies active in the market for the treatment and analysis of industrial waste, by A2A Ambiente S.p.A. in December 2019.

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26) Revenues

Revenues for the period totalled 3,181 million euro (3,711 million euro at June 30, 2019) and therefore decreased by 530 million euro (-14.3%).

Details of the more significant items are as follows:

Revenues <i>millions of euro</i>	06 30 2020	06 30 2019	CHANGE	% JUNE 2020/2019
Revenues from the sale of goods	2,541	3,075	(534)	(17.4%)
Revenues from services	544	534	10	1.9%
Revenues from long-term contracts	(1)	1	(2)	n.s.
Total revenues from the sale of goods and services	3,084	3,610	(526)	(14.6%)
Other operating revenues	97	101	(4)	(4.0%)
Total revenues	3,181	3,711	(530)	(14.3%)

The decrease mainly affected the wholesale energy market due to lower electricity and gas prices and lower volumes sold of the industrial gas portfolio, as well as the retail gas and district heating markets due to lower unit prices and lower quantities sold, due in part to measures to contain the spread of COVID-19 (for commercial and production uses) and in part to unfavourable temperature compared with the 2019 winter season (for residential uses). Revenues from tariff contributions paid to distributors for the cancellation of the obligation for energy efficiency certificates (TEE) due to the postponement of the related deadline from May to November also contributed negatively.

Further details of the main items are as follows:

<i>millions of euro</i>	06 30 2020	06 30 2019	CHANGE	% JUNE 2020/2019
Sale and distribution of electricity	1,432	1,621	(189)	(11.7%)
Sale and distribution of gas	917	1,204	(287)	(23.8%)
Sale of heat	98	109	(11)	(10.1%)
Sale of materials	21	20	1	5.0%
Sale of water	37	36	1	2.8%
Sales of environmental certificates	23	71	(48)	(67.6%)
Connection contributions	13	14	(1)	(7.1%)
Total revenues from the sale of goods	2,541	3,075	(534)	(17.4%)
Services to customers	544	534	10	1.9%
Total revenues from services	544	534	10	1.9%
Revenues from long-term contracts	(1)	1	(2)	n.s.
Total revenues from the sale of goods and services	3,084	3,610	(526)	(14.6%)
Reintegration of costs plant S. Filippo del Mela (plant essential Unit)	28	38	(10)	(26.3%)
Damage compensation	2	4	(2)	(50.0%)
Rents receivable	1	2	(1)	(50.0%)
Contingent assets	15	11	4	36.4%
Incentives for production from renewable sources (feed-in tariff)	39	35	4	11.4%
Other revenues	12	11	1	9.1%
Other operating revenues	97	101	(4)	(4.0%)
Total revenues	3,181	3,711	(530)	(14.3%)

Revenues from the sale of heat decreased by 11 million euro compared to June 30, 2019, due mainly to the decrease in volumes sold.

The decrease in revenues from the sale of environmental certificates, amounting to 48 million euro, is due mainly to a reduction in sales of white certificates caused by the postponement by the GSE of the mandatory year-end from May to November.

Revenues for services amounted to 544 million euro, representing an increase of 10 million euro over the corresponding period of the previous year.

The item Other operating revenues showed a decrease of 4 million euro mainly due to lower revenues for the reinstatement of generation costs incurred for the San Filippo del Mela plant (essential plant) pursuant to Resolution 803/2016 for 10 million euro, higher revenues linked to incentives on net production from renewable sources for 4 million euro mainly attributable to the consolidation of Agritre S.r.l., higher contingent assets for 4 million euro and higher other revenues for 1 million euro.

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

27) Operating expenses

Operating expenses amounted to 2,267 million euro (2,775 million euro at June 30, 2019), therefore representing a decrease of 508 million euro.

The main components of this item are as follows:

Operating expenses millions of euro	06 30 2020	06 30 2019	CHANGE	% JUNE 2020/2019
Expenses for raw materials and consumables	1,573	2,082	(509)	(24.4%)
Expenses for services	578	578	-	0.0%
Total expenses for raw materials and services	2,151	2,660	(509)	(19.1%)
Other operating expenses	116	115	1	0.9%
Total operating expenses	2,267	2,775	(508)	(18.3%)

Total costs for raw materials and services amounted to 2,151 million euro (2,660 million euro at June 30, 2019), decreasing by 509 million euro.

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

- a decrease of 520 million euro in the purchase of raw materials and consumables, mainly due to the decrease in costs for the purchase of power and fuel of 487 million euro, the decrease in the costs relating to the purchase of environmental certificates of 53 million euro, the increase in purchase of materials of 14 million euro and a net increase of 6 million euro arising from hedging gains/losses on operating derivatives;
- the increase in inventories of fuel and materials for 11 million euro.

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

<i>millions of euro</i>	06 30 2020	06 30 2019	CHANGE	% JUNE 2020/2019
Purchases of power and fuel	1,399	1,886	(487)	(25.8%)
Purchases of materials	68	54	14	25.9%
Purchases of water	1	1	-	0.0%
Hedging losses on operating derivatives	5	9	(4)	(44.4%)
Hedging gains on operating derivatives	(3)	(13)	10	(76.9%)
Purchases of emission certificates and allowances	75	128	(53)	(41.4%)
Total expenses for raw materials and consumables	1,545	2,065	(520)	(25.2%)
Delivery and transmission costs	297	279	18	6.5%
Maintenance and repairs	80	97	(17)	(17.5%)
Other services	201	202	(1)	(0.5%)
Total expenses for services	578	578	-	0.0%
Change in inventories of fuel and materials	28	17	11	64.7%
Total expenses for raw materials and services	2,151	2,660	(509)	(19.1%)
Leasehold improvements	37	38	(1)	(2.6%)
Concession fees	43	40	3	7.5%
Contributions to territorial entities, consortia and ARERA	5	5	-	0.0%
Taxes and duties	17	18	(1)	(5.6%)
Damages and penalties	2	2	-	0.0%
Contingent liabilities	5	5	-	0.0%
Other costs	7	7	-	0.0%
Other operating expenses	116	115	1	0.9%
Total operating expenses	2,267	2,775	(508)	(18.3%)

Trading margin

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

Trading margin <i>millions of euro</i>	NOTE	06 30 2020	06 30 2019	CHANGE
Revenues	26	1,129	974	155
Operating expenses	27	(1,123)	(968)	(155)
Total trading margin		6	6	-

The Trading margin was unchanged compared to June 30, 2020.

The persistence of price volatility in the commodity market throughout the first half of the year favoured systematic trading activities and allowed a significant intermediation of volumes through continuous quotation, market making and with commercial counterparties.

28) Labour costs

Net of capitalized expenses, labour costs at June 30, 2020 amounted to 355 million euro (354 million euro at June 30, 2019).

Labour costs may be analyzed as follows:

Labour costs millions of euro	06 30 2020	06 30 2019	CHANGE	% JUNE 2020/2019
Wages and salaries	266	270	(4)	(1.5%)
Social security charges	90	92	(2)	(2.2%)
Employee leaving entitlement (TFR)	15	16	(1)	(6.3%)
Other costs	21	13	8	61.5%
Total labour costs before capitalizations	392	391	1	0.3%
Capitalized labour costs	(37)	(37)	-	0.0%
Total labour costs	355	354	1	0.3%

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

	06 30 2020	06 30 2019	CHANGE
Managers	194	206	(12)
Supervisors	777	690	87
White-collar workers	5,202	5,196	6
Blue-collar workers	6,054	6,097	(43)
Total	12,227	12,189	38

The average labour cost per capita at June 30, 2020 amounted to 29.03 thousand euro (29.04 thousand euro at June 30, 2019).

At June 30, 2020, the Group had 12,316 employees. At June 30, 2019, the Group had 12,228 employees.

The item Other labour costs include early retirement incentives for a value of about 2 million euro (value less than 1 million euro at June 30, 2019).

29) Gross operating income

As a result of the above changes, consolidated Gross operating income at June 30, 2020 amounted to 559 million euro (582 million euro at June 30, 2019).

Further details may be found in the section Result sector by sector.

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30) Depreciation, amortization, provisions and write-downs

Depreciation, amortization, provisions and write-downs totalled 278 million euro (255 million euro at June 30, 2019), representing an increase of 23 million euro.

The following table provides details of the individual items:

Depreciation, amortization, provisions and write-downs <i>millions of euro</i>	06 30 2020	06 30 2019	CHANGE	% JUNE 2020/2019
Amortization of intangible assets	66	59	7	11.9%
Depreciation of tangible assets	198	186	12	6.5%
Total amortization, depreciation and write-downs	264	245	19	7.8%
Provisions for risks	(2)	7	(9)	n.s.
Bad debt provision on receivables recognized as current assets	16	3	13	n.s.
Total depreciation, amortization, provisions and write-downs	278	255	23	9.0%

Depreciation, amortization and write-downs totalled 264 million euro (245 million euro at June 30, 2019), representing an overall increase of 19 million euro. Amortization of intangible assets amounted to 66 million euro (59 million euro at June 30, 2019). This item includes an increase of 7 million euro in depreciation and amortization, including 8 million euro in higher depreciation and amortization attributable to the implementation of new information systems and a decrease of 1 million euro related to the gas meter replacement plan.

Depreciation of tangible assets amounted to 198 million euro (186 million euro at June 30, 2019), an increase of 12 million euro compared to June 30, 2019 attributable to:

- higher depreciation of 8 million euro, mainly relating to capex that went into production after June 30, 2019;
- higher depreciation of 4 million euro, due to the reversal of impairment following impairment tests at the end of 2019 for assets relating to the Chivasso, Sermide and Mincio plants;
- higher depreciation of 2 million euro, relating to the consolidation of Agritre, Tre Stock and Biofor, consolidated from the second half of 2019;
- higher depreciation of 2 million euro related to the decommissioning provision for the safety upgrade of the San Filippo del Mela power plant;
- higher depreciation of 1 million euro for rights of use;
- lower depreciation of 1 million euro resulting from the complete write-down of the Grottaglie landfill;
- lower depreciation of 4 million euro, including 3 million euro for the revision of the useful lives of the Corteolona, Giussago, Lacchiarella and Cascina Maggiore plants following the renewal of authorizations and 1 million euro for the revision of the useful life of Line 1 of the Parona waste-to-energy plant, which will be replaced by the new Line 3.

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

The balance of Provisions for risks shows a net positive effect of 2 million euro (negative for 7 million euro at June 30, 2019) due to surpluses of 6 million euro adjusted by provisions for the period of 4 million euro, mainly relating to public water derivation fees.

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

The Bad debt provision amounted to 16 million euro (3 million euro at June 30, 2019), consisting of the accrual for the period. It is noted that the first half of 2019 benefited from the surpluses of provisions for about 10 million euro; net of this effect, the increase compared to the corresponding period of the previous year was 3 million euro.

31) Net operating income

Net operating income amounted to 281 million euro (327 million euro at June 30, 2019).

32) Result from non-recurring transactions

The Result from non-recurring transactions was nil at June 30, 2020 (nil at June 30, 2019).

33) Financial balance

The Financial balance closed with net expense of 38 million euro (net expense of 65 million euro at June 30, 2019).

Details of the more significant items are as follows:

Financial balance millions of euro	06 30 2020	06 30 2019	CHANGE	% JUNE 2020/2019
Financial income	6	5	1	20.0%
Financial expenses	(45)	(70)	25	(35.7%)
Affiliates	1	-	1	n.s.
Total financial balance	(38)	(65)	27	(41.5%)

Financial income amounted to 6 million euro (5 million euro at June 30, 2019) and may be analyzed as follows:

Financial income millions of euro	06 30 2020	06 30 2019	CHANGE	% JUNE 2020/2019
Other financial income of which:	6	5	1	20.0%
- Financial income from the Municipality of Brescia (IFRIC 12)	3	3	-	0.0%
- Foreign exchange gains	1	-	1	n.s.
- Other income	2	2	-	0.0%
Total financial income	6	5	1	20.0%

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Financial expense, which amounted to 45 million euro, decreased by 25 million euro over the balance at June 30, 2019, and may be analyzed as follows:

Financial expenses <i>millions of euro</i>	06 30 2020	06 30 2019	CHANGE	% JUNE 2020/2019
Interest on bond loans	36	48	(12)	(25.0%)
Interest charged by banks	1	2	(1)	(50.0%)
Realized on financial derivatives	2	3	(1)	(33.3%)
Decommissioning costs	1	1	-	0.0%
Other financial expenses of which:	5	16	(11)	(68.8%)
- <i>Discounting charges</i>	1	6	(5)	(83.3%)
- <i>Financial expenses (IFRS 16)</i>	1	-	1	<i>n.s.</i>
- <i>Financial expenses (IFRIC 12)</i>	1	1	-	0.0%
- <i>Foreign exchange losses</i>	1	-	1	<i>n.s.</i>
- <i>Other expenses</i>	1	9	(8)	<i>n.s.</i>
Total financial expenses before capitalizations	45	70	(25)	(35.7%)
Capitalized financial expenses	-	-		
Total financial expenses	45	70	(25)	(35.7%)

The decrease of 12 million euro in interest on bonds is due mainly to the refinancing of bonds that matured in 2019 at lower rates.

The valuation of equity investments according to the equity method was positive for 1 million euro (nil at June 30, 2019), and is mainly attributable to the positive valuation of the equity investment held by Metamer.

34) Income taxes

Income taxes in the period in question equalled 78 million euro (87 million euro at June 30, 2019).

It is noted that on the occasion of the closing of the 2020 half-year report, the A2A Group decided to estimate the tax for the period for all Group companies by adopting the tax rate criterion based on the best estimate of the Group's weighted average rate expected for the entire year.

35) Net result from discontinued operations

The Net result from discontinued operations is negative and equal to 2 million euro (nil at June 30, 2019) and refers to the transfer of the shares, equal to 2% of the company Ascopiave S.p.A., as well as the valuation of the shares, equal to 2.16% of the share capital of Ascopiave S.p.A., for which the A2A Group has exercised the right of withdrawal, net of dividends collected.

36) Result of minorities

The Result of minorities was negative for the Group for 9 million euro. In the corresponding period of the previous year, the item showed a negative balance for the Group for 9 million euro.

37) Group result of the period

The Group result of the period was positive for 154 million euro (positive for 166 million euro at June 30, 2019).

Earnings per share

38) Earnings per share

	01 01 2020 06 30 2020	01 01 2019 06 30 2019
Earnings (loss) per share (in euro)		
- basic	0.0497	0.0534
- basic, from continuing operations	0.0502	0.0533
- basic, from assets held for sale	(0.0006)	0.0002
- diluted	0.0497	0.0534
- diluted, from continuing operations	0.0502	0.0533
- diluted from assets held for sale	(0.0006)	0.0002
Weighted average number of outstanding shares for the calculation of earnings (loss) per share		
- basic	3,109,183,856	3,109,183,856
- diluted	3,109,183,856	3,109,183,856

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39) Note on related party transactions

Related parties are those indicated by the international accounting standard that concerns Related Party Disclosures (IAS 24 revised).

Relationships with parent companies and their subsidiaries

On October 5, 2007, the Municipalities of Milan and Brescia signed a Shareholders' Agreement to regulate the ownership structure of A2A S.p.A.; this gave the Municipalities joint control over the company.

Specifically, the merger effective January 1, 2008, regardless of the legal structure established, was considered a joint venture, whose joint control was exercised by the Municipalities of Milan and Brescia, each of which owned a share equal to 27.5%.

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

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

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

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

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

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

At the date of approval of these consolidated financial statements at June 30, 2020, the two shareholders held a shareholding of 50% plus two shares that enables the two municipalities to maintain control over the company.

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

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

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

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

On April 12, 2017, Amsa S.p.A., a subsidiary of A2A S.p.A., signed a contract with the Municipality of Milan for the management of environmental protection services for the period January 1, 2017 - February 8, 2021.

Relationships with subsidiaries and affiliates

The parent company A2A S.p.A., operates like a centralized treasury for the majority of the subsidiaries.

Relations between the companies are regulated through current accounts between the parent company and the subsidiaries, on which rates are applied, at market conditions, based on variable Euribor, with specific spreads for companies. For the financial year 2019, A2A S.p.A. and its subsidiaries have adopted the VAT procedure of the Group.

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

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

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

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

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

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

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

Balance sheet	Total 06 30 2020	Of which with related parties								% effect on the balance sheet item
		Associa- ted compa- nies	Related compa- nies	Municipa- lity of Milan	Subsidi- aries Muni- cipality of Milan	Municipi- pality of Brescia	Subsidi- aries Muni- cipality of Brescia	Related parties indivi- duals	Total related parties	
millions of euro										
TOTAL ASSETS OF WHICH:	10,632	6	27	113	14	9	1	-	170	1.6%
Non-current assets	7,698	5	19	-	-	4	-	-	28	0.4%
Shareholdings	24	5	19	-	-	-	-	-	24	100.0%
Other non-current financial assets	30	-	-	-	-	4	-	-	4	13.3%
Current assets	2,914	1	8	113	14	5	1	-	142	4.9%
Trade receivables	1,616	1	6	113	14	4	1	-	139	8.6%
Other current assets	872	-	2	-	-	-	-	-	2	0.2%
Current financial assets	13	-	-	-	-	1	-	-	1	7.7%
TOTAL LIABILITIES OF WHICH:	10,632	23	3	4	1	7	-	-	38	0.4%
Non-current liabilities	4,201	1	-	-	-	-	-	-	1	0.0%
Non-current financial liabilities	652	1	-	-	-	-	-	-	1	0.2%
Current liabilities	2,849	22	3	4	1	7	-	-	37	1.3%
Trade payables	1,086	15	3	4	1	7	-	-	30	2.8%
Other current liabilities	1,133	7	-	-	-	-	-	-	7	0.6%

Income statement	Total 06 30 2020	Of which with related parties								% effect on the balance sheet item
		Associa- ted compa- nies	Related compa- nies	Municipa- lity of Milan	Subsidi- aries Muni- cipality of Milan	Municipi- pality of Brescia	Subsidi- aries Muni- cipality of Brescia	Related parties indivi- duals	Total related parties	
millions of euro										
REVENUES	3,181	1	14	160	17	19	1	-	212	6.7%
Revenues from the sale of goods and services	3,084	1	14	160	17	19	1	-	212	6.9%
OPERATING EXPENSES	2,267	9	2	1	2	4	-	-	18	0.8%
Expenses for raw materials and services	2,151	-	2	-	2	-	-	-	4	0.2%
Other operating expenses	116	9	-	1	-	4	-	-	14	12.1%
FINANCIAL BALANCE	(38)	-	1	-	-	3	-	-	4	(10.5%)
Financial income	6	-	-	-	-	3	-	-	3	50.0%
Affiliates	1	-	1	-	-	-	-	-	1	100.0%

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

With regard to the compensation paid to the corporate governance bodies, reference shall be made to the document “Remuneration Report - 2020” available on the website www.a2a.eu.

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

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

There were no atypical and/or unusual transactions during the period in question.

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Guarantees and commitments with third parties

<i>millions of euro</i>	06 30 2020	12 31 2019
Guarantees received	867	837
Guarantees provided	1,240	1,274

Guarantees received

Guarantees received amounted to 867 million euro (837 million euro at December 31, 2019) and included 359 million euro for sureties and security deposits issued by subcontractors to guarantee the proper execution of the work assigned and 508 million euro for sureties and security deposits received from customers to guarantee the regularity of payments.

Guarantees provided and commitments with third parties

Guarantees provided amounted to 1,240 million euro (1,274 million euro at December 31, 2019), of which for obligations undertaken in the loan agreements of 78 million euro. These guarantees have been issued by banks for 926 million euro, insurance companies for 54 million euro and the parent company A2A S.p.A., as parent company guarantee, for 260 million euro.

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

Other information

1) Transactions as per IFRS 3 revised

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

- ASM Energia S.p.A., acquired in 2019 and previously consolidated at equity, has been consolidated on a line-by-line basis since February 1, 2020. The company is active in the electricity and gas sales market;
- on February 27, 2020, LGH S.p.A. completed the acquisition of two companies, Agritre S.r.l. and Tre Stock S.r.l., active in the biomass generation sector.

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

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

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

Business combination Asm Energia S.p.A.

As from February 1, 2020, the Group has consolidated on a line-by-line basis ASM Energia S.p.A., a company acquired in 2019 by Libera Energia S.p.A.

The transaction was concluded for 13.8 million euro entirely paid for at closing.

Upon the line-by-line consolidation of the company, the Group allocated the higher value generated by the transaction to the Customer List, amounting to 10.3 million euro and related 2.9 million euro in deferred taxes.

Business combination Agritre S.r.l. and Tre Stock S.r.l.

On February 27, 2020, LGH S.p.A. completed the acquisition of Agritre S.r.l. and Tre Stock S.r.l. from Tozzi Green S.p.A. and 3 New S.r.l.

The value of the transaction was 54.3 million euro. The Group will complete the Purchase Price Allocation process within the terms envisaged by IFRS 3.

Business combination A2A Ambiente S.p.A.

With reference to the acquisition of 100% of Areslab S.r.l. and 90% of Electrometal S.r.l. carried out by A2A Ambiente S.p.A., it is noted that the goodwill generated, amounting to 14.7 million euro, will be re-expressed within the time frame envisaged by IFRS 3 through the Purchase Price Allocation process.

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2) Financial risk management

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

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

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

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

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

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

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

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

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

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

a. Commodity risk

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

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

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

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

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

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

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

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

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

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

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

a.2) Commodity derivatives, analysis of transactions

Derivatives of the industrial portfolio considered hedges

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

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

The fair value at June 30, 2020 was 6.8 million euro (-17.4 million euro at December 31, 2019).

Derivatives of the industrial portfolio not considered hedges

Again with a view to optimizing the Industrial Portfolio, future contracts and hedging contracts relating to the purchase and sale of gas indexed to degrees day have been entered into on the ICE ECX (European Climate Exchange) stock exchange price. These do not qualify as hedging transactions from an accounting point of view as they fail to meet the requirement set out in the accounting standards.

The fair value at June 30, 2020 was -1.1 million euro (0.0 million euro at December 31, 2019).

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Derivatives of the Trading Portfolio

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

The fair value at June 30, 2020 was 7.2 million euro (8.8 million euro at December 31, 2019).

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

PaR⁽¹⁾ or Profit at Risk, is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the industrial portfolio. It is the change in the value of a financial instruments portfolio within set probability assumptions as the result of a shift in the market indices. The PaR is calculated using the Montecarlo Method (at least 10,000 trials) and a 99% confidence level. It simulates scenarios for each relevant price driver depending on the volatility and correlations associated with each one, using as the central level the forward market curves at the balance sheet date, if available. By means of this method, after having obtained a distribution of probability associated with changes in the result of outstanding financial contracts, it is possible to extrapolate the maximum change expected over a time horizon given by the accounting period at a set level of probability. Based on this method, over the time horizon of the accounting period and in the event of extreme market movements and at a 99% confidence level, the expected maximum negative change in financial derivatives outstanding at June 30, 2020 was 101.270 million euro (98.735 million euro at December 31, 2019).

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

millions of euro	06 30 2020		12 31 2019	
	Worst case	Best case	Worst case	Best case
Profit at Risk (PaR)				
Confidence level 99%	(101.270)	131.627	(98.735)	120.612

The A2A Group therefore expects, with a 99% probability, not to have changes compared to the fair value at June 30, 2020 exceeding 101.270 million euro of its entire portfolio of financial instruments due to commodity price fluctuations. If there are any negative changes in the fair value of derivatives, these would be compensated by changes in the underlying as the result of changes in market prices.

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

VaR (Value at Risk)⁽²⁾ is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the trading portfolio. It is the negative change in the value of a financial instruments portfolio within set probability assumptions as the result of an unfavourable shift in the market indices. VaR is calculated using the RiskMetrics method with a holding period of 3 days and a confidence level of 99%. Alternative methods are used for contracts where it is not possible to perform a daily estimate of VaR such as stress test analysis.

Based on this method, in the case of extreme market movements, with a confidence level of 99% and a holding period of 3 days, the maximum estimated loss on the derivatives in question was 0.286 million euro at June 30, 2020 (0.159 million at December 31, 2019). In order to ensure closer monitoring of activities, VaR and Stop Loss (the sum of VaR, P&L Realized and P&L Unrealized) limits are also set.

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

The following are the results of the assessments:

millions of euro	06 30 2020		12 31 2019	
	VaR	Stop loss	VaR	Stop loss
Value at Risk (VaR)				
Confidence level 99%, holding period 3 days	(0.286)	(0.286)	(0.159)	(0.159)

b. Interest rate risk

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

The book value and type of gross debt at June 30, 2020 are shown in the table below:

millions of euro	06 30 2020			12 31 2019		
	Before hedging	After hedging	% after hedging	Before hedging	After hedging	% after hedging
Fixed rate	2,645	2,871	78%	2,649	2,892	80%
Floating rate	1,024	798	22%	962	719	20%
Total	3,669	3,669	100%	3,611	3,611	100%

At June 30, 2020, the following are the hedging instruments for interest rate risk:

millions of euro		HEDGED ASSET	06 30 2020		12 31 2019	
HEDGING INSTRUMENT			Fair value	Notional	Fair value	Notional
IRS	Controlled floating rate loan		(0.2)	17.2	(0.3)	23.7
IRS	Controlled floating rate lease		(3.1)	18.2	(3.2)	19.1
Collar	A2A floating rate loan		(4.5)	66.7	(5.6)	76.2
Total			(7.8)	102.1	(9.1)	119.0

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

millions of euro		DERIVATIVES	NOTIONAL		FAIR VALUE ASSETS		NOTIONAL		FAIR VALUE LIABILITIES	
ACCOUNTING TREATMENT			at		at		at		at	
			06/30/2020	12/31/2019	06/30/2020	12/31/2019	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Cash flow hedge	Collar		-	-	-	-	66.7	76.2	(4.5)	(5.6)
Cash flow hedge	IRS		-	-	-	-	35.4	42.8	(3.3)	(3.5)
Total			-	-	-	-	102.1	119.0	(7.8)	(9.1)

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Derivatives on interest rates at June 30, 2020 in cash flow hedge refer to the following loans:

Loan	Derivative	Accounting
A2A S.p.A. loan with BEI: expiring in November 2023, residual balance at June 30, 2020 amounting to 66.7 million euro, at variable rate.	Collar to fully cover the loan and the same maturity, with a floor on Euribor rate 2.99% and 4.65% cap. At June 30, 2020, the fair value was negative for 4.5 million euro.	The loan is measured at amortized cost. The collar is a cash flow hedge, with 100% recognized in a specific equity reserve.
Linea Green loan with Unicredit: maturity May 2021, residual balance at June 30, 2020 amounting to 5.4 million euro, at variable rate.	IRS on 100% of the amount of the loan until maturity thereof. At June 30, 2020, the fair value was negative for 0.1 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
ACSM-AGAM loan with Intesa Sanpaolo: maturity June 2021, residual debt at June 30, 2020 amounting to 5.8 million euro, at variable rate.	IRS on 100% of the amount of the loan until maturity thereof. At June 30, 2020, the fair value was negative for 0.03 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
ACSM-AGAM loan with Unicredit: maturity June 2023, residual balance at June 30, 2020 amounting to 6.0 million euro, at variable rate.	IRS on 100% of the amount of the loan until maturity thereof. At June 30, 2020, the fair value was negative for 0.06 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
9 Leases of A2A Rinnovabili with various credit institutions and maturities, total debt at June 30, 2020 of 22.0 million euro, at variable rate.	IRS on 83% of the lease amount. At June 30, 2020, the fair value was negative for 3.1 million euro.	The IRS are in cash flow hedge, with 100% recognized in a specific equity reserve.

In order to provide a better understanding of the risks of interest rate fluctuations to which the Group is subjected every six months, at December 31 and at June 30, a sensitivity analysis is conducted of net financial expenses and valuation items of derivative financial contracts as a result of interest rate fluctuations.

The following table shows the results of the analysis on financial expenses:

millions of euro	1st HALF 2020 (base case: 37.6)	
	-50 bps	+50 bps
Increase (decrease) in gross financial expenses	(0.5)	0.7

This sensitivity is calculated in order to determine the effect of a retrospective change in the forward rate curve on gross financial expenses.

A sensitivity analysis is provided relating to possible changes in the fair value of derivatives (excluding cross currency swaps) on shifting the forward rate curve by +50 bps and -50 bps:

millions of euro	06 30 2020 (base case: -7.8)		12 31 2019 (base case: -9.1)	
	-50 bps	+50 bps	-50 bps	+50 bps
Change in fair value of derivatives	(1.7)	1.7	(1.4)	1.2

This sensitivity analysis is calculated to determine the effect of the retrospective change of the forward interest rate curve of the fair value of derivatives ignoring any impact of the adjustment due to counterparty risk, Bilateral Credit Value Adjustment (bCVA), introduced in the calculation of fair value in accordance with international accounting standard IFRS 13.

c. Exchange rate risk not related to commodities

In relation to exchange rate risk other than that included in the price of commodities, the hedging instrument at June 30, 2020 is as follows:

millions of euro

HEDGING INSTRUMENT	HEDGED ASSET	06 30 2020		12 31 2019	
		Fair value	Notional (*)	Fair value	Notional (*)
Cross Currency IRS	Fixed rate loan in foreign currency	(2.9)	116.0	2.4	114.8
Total		(2.9)	116.0	2.4	114.8

(*) the notional of the CCS is valued at the year-end ECB exchange rate.

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

In particular, the underlying of the Cross Currency IRS derivative refers to the bond at fixed rate of 14 billion yen with maturity 2036 bullet issued in 2006.

A cross currency swap contract was stipulated for the entire duration of this loan, which converts the principal and interest payments from yen into euro.

At June 30, 2020, the fair value of the hedge was negative for 2.9 million euro. This fair value would improve by 17.8 million euro in the event of a 10% decline in the forward curve of the euro/yen exchange rate (appreciation of the yen) recorded at the above date and would worsen by 6.5 million euro in the event of a 10% rise in the forward curve of the euro/yen exchange rate (depreciation of the yen). The sensitivity analysis was performed with the aim of calculating the effect of changes in the forward curve of the euro/yen exchange rate on the fair value ignoring any impact on the adjustment due to the bCVA.

d. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations in a timely manner or that it is able to do so under unfavourable economic conditions.

The profile of the Group's gross debt maturities is as follows:

millions of euro	Accounting balance 06 30 2020	Portions maturing within 12 months	Portions maturing after 12 months	Portions maturing by				
				06 30 2021	06 30 2022	06 30 2023	06 30 2024	After
Bonds	2,588	386	2,202	499	-	599	298	806
Financial payables for rights of use (*)	138	25	113	19	15	11	10	58
Loans from banks and other lenders	943	150	793	88	135	77	68	425
TOTAL	3,669	561	3,108	606	150	687	376	1,289

(*) Including finance leases.

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

At June 30, 2020, the Group had a total of 1,354 million euro, as follows:

- (i) committed revolving credit lines of 740 million euro, of which 140 million euro maturing in 2021 and 600 million euro maturing in 2023, unused;
- (ii) unused long-term financing for a total of 400 million euro;
- (iii) cash and cash equivalents totaling 214 million euro, including 156 million euro at the Parent Company level.

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The Group also maintains a Bond Issue Program (Euro Medium Term Note Programme) of 4 billion euro, of which nominal 1,549 million euro still available.

The following table analyzes the worst case for financial liabilities (excluding payables for IFRS 16 and including trade payables), in which all of the amounts shown are non-discounted future nominal cash flows determined on the basis of residual contractual maturities for both principal and interest. The undiscounted nominal flows of derivative contracts on interest rates are also included. Finally, any revocable financial lines used and current accounts payable are due within the next financial year.

06 30 2020 <i>millions of euro</i>	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS	TOTAL
Bonds	6	413	2,430	2,849
Payables and other financial liabilities	52	112	855	1,019
Total financial flows	58	525	3,285	3,868
Payables to suppliers	289	24	2	315
Total trade payables	289	24	2	315

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

e. Credit risk

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

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

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

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

f. Equity risk

The A2A Group is exposed to equity risk limited to the holding of treasury shares held by A2A S.p.A., which at June 30, 2020 amounted to 23,721,421 shares corresponding to 0.757% of the share capital, which is made up of 3,132,905,277 shares.

From an accounting standpoint, as provided by IAS/IFRS, the purchase cost of treasury shares is recorded as decrease in shareholders’ equity and not even if transferred will the eventual positive or negative difference, with respect to the purchase cost, have effects on the income statement. The purchase of treasury shares has been made to pursue development objectives such as transactions related to business projects consistent with the strategies that the company intends to pursue, in relation to which there is the opportunity of stock exchanges.

g. Covenants compliance risk

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

Bonds include (i) 2,451 million euro nominal (book value of 2,470 million euro at June 30, 2020) issued as part of the EMTN Programme, which provide to investors a Change of Control Put in the event of a change of control of the company resulting in a rating downgrade at sub-investment grade level in the following 180 days (if within said 180 days, the company’s rating should return to investment grade, the option may not be exercised); (ii) 98 million euro nominal (book value at June 30, 2020 117 million euro) relating to the private bond in yen with maturity 2036 with a Put right clause in favour of the investor in the event that the rating is lower than BBB- or equivalent level (sub-investment grade).

The loans stipulated with the European Investment Bank, with book value of 690 million euro, of which 325 million euro with maturity beyond 5 years, contain a Credit Rating clause (if rating below BBB- or equivalent level to sub-investment grade), and include a change of control clause of the parent company, with the right for the bank to invoke, upon notice to the company containing indication of the reasons, the early repayment of the loan.

With regard to loans of the subsidiaries, the loan of A2A Gencogas S.p.A. for a book value of 5 million euro is backed by a secured guarantee (mortgage) for a maximum of 120 million euro and contains two financial covenants, as shown in the table below.

The loan between Linea Green and Unicredit for a book value of 5 million euro is secured by real guarantees on the Company’s properties and plants and includes a financial covenant, as shown in the table below.

Some finance lease of A2A Rinnovabili and some bank loans of ACSM-AGAM envisage financial covenants, as shown in the table below.

With reference to the bank lines revolving committed available, the line for 400 million euro with maturity November 2023, the bilateral line for 100 million euro with maturity February 2020 and the two bilateral lines for 50 and 150 million euro, both with maturity May 2023, include a Change of Control clause which in the event of a change of control of the company causing a Material Adverse Effect allows the banks to request the facility to be extinguished and early repayment of any amounts drawn.

At June 30, 2020, there was no situation of non-compliance with the covenants of the A2A Group companies.

A2A Group - Main financial covenants at June 30, 2020

COMPANY	LENDER	LEVEL OF REFERENCE	LEVEL RECOGNIZED	DATE OF RECOGNITION
A2A gencogas	Intesa San Paolo	NFP/Equity <=2	0.0	12/31/2019
		NFP/EBITDA<=6	0.2	12/31/2019
Linea Green	Unicredit	Residual debt/Equity <= 0.3	0.1	06/30/2020
RenewA24	ICCREA	ADSCR (Operating Cash Flow/Lease Fees) =>1.10	1.22	12/31/2019
I.Fotoguiglia	Leasint	ADSCR (Operating Cash Flow/Lease Fees) =>1.20	1.27	12/31/2019
ACSM-AGAM	UBI	Debt Service Coverage Ratio <=4.5	1.41	12/31/2019
		Gearing <= 1.5	0.15	12/31/2019
ACSM-AGAM	Intesa San Paolo	Debt Service Coverage Ratio <= 4.35	1.41	12/31/2019
		Gearing <= 1.1	0.15	12/31/2019
ACSM-AGAM	Unicredit	Debt Service Coverage Ratio <= 3.0	1.41	12/31/2019
		Gearing <= 1.0	0.15	12/31/2019
Acsm Agam Reti	Cassa DDPP	Debt Service Coverage Ratio <= 4.50	1.41	12/31/2019
		Gearing <= 1.2	0.15	12/31/2019

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Analysis of forward transactions and derivatives

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

In particular:

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

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

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

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

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

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

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

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

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

Instruments outstanding at June 30, 2020

A) On interest and exchange rates

millions of euro

	Notional value (a) expiring within 1 year	Notional value (a) expiring within 1 and 5 years	Notional value (a) expiring over 5 years	Balance sheet value (b)	Progressive effect to income statement at 06 30 2020 (c)
Interest rate risk management					
- cash flow hedges as per IFRS 9	34	64	8	(8)	
- not considered hedges as per IFRS 9					
Total derivatives on interest rates	34	64	8	(8)	-
Exchange rate risk management					
- considered hedges as per IFRS 9 on commercial transactions on financial transactions			116	(3)	
- not considered hedges as per IFRS 9 on commercial transactions on financial transactions					
Total exchange rate derivatives	-	-	116	(3)	-

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

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B) On commodities

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

		Volume by Maturity			Notional Value	Fair Value	
		Due within 1 year	Due within two years	Due within five years		Balance sheet value (*)	Progressive effect to income statement (**)
Energy product price risk management	Unit of measurement	Quantity			Millions of euro		
A. Cash flow hedges as per IFRS 9, including:						6.8	-
- Electricity	TWh	8.3	0.3		227.3	(5.7)	
- Oil	Bbl						
- Coal	Tons						
- Natural Gas	TWh	1.8	0.4		30.1	0.3	
- Natural Gas	Millions of cubic metres	3.3			0.9	0.3	
- Exchange rate	Millions of dollars						
- CO ₂ Emission rights	Tons	1,739,000	963,000	91,000	64.3	11.9	
B. considered fair value hedges as per IFRS 9						-	-
C. not considered hedges as per IFRS 9 of which						6.1	(2.6)
C.1 hedge margin						(1.1)	(1.1)
- Electricity	TWh						
- Oil	Bbl						
- Natural Gas	Degrees day	1,892			3.5	-	-
- Natural Gas	Millions of cubic metres						
- CO ₂ Emission rights	Tons	339,000			8.1	(1.1)	(1.1)
- Exchange rate	Millions of dollars						
C.2 trading transactions						7.2	(1.5)
- Electricity	TWh	24.4	25.5	3.6	2,714.2	(3.2)	(7.4)
- Natural Gas	TWh	157.3	48.5	12.2	3,172.0	11.0	6.0
- CO ₂ Emission rights	Tons	2,320,000			48.9	(0.6)	(0.1)
- Environmental Certificates	MWh						
- Environmental Certificates	Tep						
Total						12.9	(2.6)

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

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

Financial and operating results for derivative transactions at June 30, 2020

Effects on the balance sheet

The following table shows the balance sheet figures at June 30, 2020, for derivative transactions.

millions of euro	NOTE	TOTAL
ASSETS		
NON-CURRENT ASSETS		-
Other non-current assets - Derivatives	5	-
CURRENT ASSETS		652
Other current assets - Derivatives	8	652
TOTAL ASSETS		652
LIABILITIES		
NON-CURRENT LIABILITIES		11
Other non-current liabilities - Derivatives	21	11
CURRENT LIABILITIES		639
Trade payables and other current liabilities - Derivatives	22	639
TOTAL LIABILITIES		650

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Effect on the income statement

The following table sets out the income statement figures at June 30, 2020 arising from the management of derivatives.

millions of euro	Note	Realised during the period	Change in fair value during the period	Amounts recognized in the income statement
REVENUES	26			
Revenues from the sale of goods				
<i>Energy product price risk management and exchange rate risk management on commodities</i>				
- considered hedges as per IFRS 9		1	-	1
- not considered hedges as per IFRS 9		22	100	122
Total revenues from the sale of goods		23	100	123
OPERATING EXPENSES	27			
Expenses for raw materials and services				
<i>Energy product price risk management and exchange rate risk management on commodities</i>				
- considered hedges as per IFRS 9		(65)	-	(65)
- not considered hedges as per IFRS 9		(29)	(103)	(132)
Total costs for raw materials and services		(94)	(103)	(197)
Total recognized in Gross operating income (*)		(71)	(3)	(74)
FINANCIAL BALANCE	33			
Financial income				
<i>Interest rate risk management and equity risk management</i>				
Income on derivatives				
- considered hedges as per IFRS 9		-	-	-
- not considered hedges as per IFRS 9		-	-	-
Total		-	-	-
Total financial income		-	-	-
Financial expenses				
<i>Interest rate risk management and equity risk management</i>				
Expenses on derivatives				
- considered hedges as per IFRS 9		(2)	-	(2)
- not considered hedges as per IFRS 9		-	-	-
Total		(2)	-	(2)
Total financial expenses		(2)	-	(2)
TOTAL RECOGNIZED IN FINANCIAL BALANCE		(2)	-	(2)

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

Classes of financial instruments

To complete the analyses required by IFRS 7 and IFRS 13, the following table sets out the various types of financial instrument that are to be found in the various balance sheet items, with an indication of the accounting policies used and, in the case of financial instruments measured at fair value, an indication of where changes are recognized (income statement or equity). The last column of the table shows the fair value of the instrument at June 30, 2020, where applicable.

millions of euro

Criteria to measure the reported amount of financial instruments							
	Note	Financial instruments measured at fair value with changes recognized in:			Financial instruments measured at amortized cost	Amount as stated in the consolidated balance sheet at 06 30 2020	Fair value at 06 30 2020 (*)
		Income statement	Equity				
		(1)	(2)	(3)	(4)		
ASSETS							
Other non-current financial assets							
Financial assets measured at fair value of which:							
- unlisted		7				7	n.a.
- listed						-	-
Financial assets held to maturity						-	-
Other non-current financial assets					23	23	23
Total other non-current financial assets	3					30	
Other non-current assets	5				20	20	20
Trade receivables	7				1,616	1,616	1,616
Other current assets	8	634	18		220	872	872
Current financial assets	9				13	13	13
Cash and cash equivalents	11				214	214	214
LIABILITIES							
Financial liabilities							
Non-current and current bonds	18 and 23		116		2,472	2,588	2,588
Other non-current and current financial liabilities	18 and 23				1,081	1,081	1,081
Other non-current liabilities	21		11		143	154	154
Trade payables	22				1,086	1,086	1,086
Other current liabilities	22	628	11		494	1,133	1,133

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

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

(2) Cash flow hedges.

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

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

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Fair value hierarchy

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

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

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

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

<i>millions of euro</i>	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets measured at fair value	3		7		7
Other non-current assets	5		-		-
Other current assets	8	647	1	4	652
TOTAL ASSETS		647	8	4	659
Non-current financial liabilities	18	116			116
Other non-current liabilities	21		11		11
Other current liabilities	22	637		2	639
TOTAL LIABILITIES		753	11	2	766

Sensitivity analysis for financial instruments included in level 3

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

FINANCIAL INSTRUMENT	PARAMETER	PARAMETER CHANGE	SENSITIVITY (MILLIONS OF EURO)
Commodity Derivatives	Probability of Default (PD)	1%	0.00
Commodity Derivatives	Loss Given Default (LGD)	25%	0.00
Commodity Derivatives	Underlying interconnection capacity zonal Italy (CCC)	1%	0.05

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

Adequate provisions are provided where necessary for the disputes and litigation described below.

It is noted that if there is no explicit reference to the presence of a provision, the Group assessed the corresponding risk as possible without appropriating provisions in the financial statements.

Civil litigation

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

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

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

S.F.C. S.A. filed a notice of joinder on November 08, 2011 pursuant to article 105 of the Civil Procedure Code (which allows a third party to make a new, different request to the original judge, extending the argument) and called that Ergosud S.p.A. alone should be ordered to pay damages, in part similar to those claimed by the Consortium, quantified in 27,467,031 euro.

The judge found the bankruptcy of S.F.C. S. A. was legitimate and therefore set the end of the proceedings and the hearing for December 19, 2012, declaring the need to execute an expert opinion, setting May 23, 2013 as the date for the hearing to appoint the court's expert witness. At that hearing the judge, changed in the meantime, confirmed the questions already formulated on December 19, 2012 and appointed the court experts Messrs. Pompili and Caroli, setting a term for the parties to appoint their own consultants. A2A S.p.A. and Ergosud S.p.A. appointed as their experts Mr. Massardo and Mr. Giofrè, persons who over the years have already drawn up reports on the matters to which the questions refer. After adjournments requested by the experts, on July 31, 2014, the CTU was filed with the Court. The hearing for the expert's examination was held after adjournment on April 01, 2015 and the hearing for clarification of conclusions has been scheduled for November 30, 2016. At this hearing, filing of the award issued by the Arbitration Court of Milan was admitted in March 2016, and the terms were set for the final statements and replication before arriving to the sentence. The hearing to clarify conclusions was then fixed again and postponed several times and was finally held October 31, 2018. The parties have lodged their pleadings within the time allowed and the judgment is therefore pending. The Group has not allocated any provisions as it does not deem as probable the risk related to this lawsuit.

ASM Novara S.p.A. dispute

The award

In March 2013, Pessina Costruzioni initiated arbitration proceedings against A2A to declare the failure to comply with the shareholder agreement signed between shareholders for the management of Asm Novara and to sue A2A for damages. On June 30, 2015, the Arbitration Board, with the dissenting opinion of the arbitrator appointed by A2A filed its award that deems A2A responsible for violation of the shareholders' agreement signed on August 4, 2007 and, consequently, the order to pay damages of 37,968,938.95 euro plus legal fees and arbitration expenses. The company challenged the award pursuant to art. 829 Civil Procedure Code before the Milan Court of Appeal.

On November 23, 2016, the Court of Appeals of Milan filed the Sentence 4337/16 declaring the grounds for appeal of the award filed inadmissible and unfounded, with the consequent absorption of incidental claims.

In the terms, A2A appealed to the Supreme Court appealing against the chapter of the sentence that rejected the first plea for invalidity of the award and the chapter that individually rejected chapters 5, 6 and 7 relating to the liquidation of the damage equitably. Pessina Costruzioni appeared in court rejecting all the grounds and requesting confirmation of the sentence.

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Effectiveness and execution of the award

On May 11, 2016, following invalidity of the effectiveness suspension of the award ordered by the Court of Appeal and the outcome of enforcement actions, A2A paid to Pessina Costruzioni 38,524,290.56 euro.

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

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

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

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

In the summons notified, Carlo Tassara complained that, in the transaction, EDF and A2A agreed on a mutual "discount" on the price paid by EDF for the purchase of Edison shares, on the one hand, and on the price paid by A2A for the purchase of 70% of Edipower, on the other. This discount was expected to be the result of abusive conduct by EDF and A2A as shareholders of Edison and the violation, among other things, of the regulations on transactions with related parties. This - according to Carlo Tassara - was expected to allow maintaining artificially low the price of the Edison shares paid to A2A and consequently the tender offer price paid to minorities of Edison (which by law was expected to be equal to that paid to A2A).

However, in 2012, A2A and EDF had voluntarily subjected the Transaction to the prior examination of Consob precisely in order to confirm the correctness of the tender offer price. Following extensive examinations, Consob had deemed that a compensatory mechanism could be detected in the transaction as a whole (i.e. between the sale of Edipower on the one hand and the sale of Edison shares on the other) and that therefore the tender offer price was to be increased from 0.84 euro to 0.89 euro per share.

In light of said decision, the parties had increased the sale price of the shareholding in Edison based on the price of 0.89 euro per share, for a total increase of around 84 million euro. EDF launched the tender offer at 0.89 euro per share.

Carlo Tassara resorted to Consob in order to further increase the price of the tender offer, but Consob rejected the request.

In addition, pending the tender offer, Carlo Tassara challenged before the TAR the tender offer document and the related resolution of approval by Consob requesting suspensions thereof for reasons of urgency. However, the TAR postponed the decision on the suspension to a date following the closing of the tender offer and, as a result of this, Carlo Tassara adhered to the tender offer and waived the cautionary request.

The writ of summons did not quantify the damage allegedly suffered by Carlo Tassara as a result of such transactions. However, with brief on February 20, 2017, Carlo Tassara requested that the court have an expert witness to calculate the damages (specifying that they be quantified in the alleged difference between the tender offer price and the market value that the Edison shares had previously). Carlo Tassara also filed an appraisal in which such damages were quantified in a total amount between 197 and 232 million euro, amount to calculate the compensation due from each of the companies that will be considered responsible by the judge.

After several postponements justified also by modifications of the judge, on October 17, 2018, the judge rejected the requests for investigation of the plaintiffs, setting March 19, 2019 as the hearing for clarification of conclusions. The Company has filed its pleadings within the time limits and the ruling is pending. The Group, having fulfilled the requirements of the regulations in force, does not consider likely the risk for which it has not allocated any provisions.

Criminal litigation

Investigation Monfalcone Plant (RGNR 578/11-RG Court of Gorizia 131/2015)

This investigation was initiated with a report filed in March 2011 by the management of the A2A Group against A2A employees and third party businessmen suspected of being responsible for fraud carried out to the harm of the company itself, who - for the payment of conspicuous sums of money - were responsible for illegal trafficking, the falsification of forms identifying the waste and certificates of analysis, in relation to the supply of biomasses and the certification of their calorific value. More specifically, biomass quantities were recorded on entry at figures higher than the real ones, with the relative calorific values also being increased.

This implies damage to the A2A Group and in particular to A2A Trading S.r.l. (now A2A S.p.A.). The feared damage that A2A could have suffered as a result of the failure to recognize Green Certificates or the request for the return of Green Certificates issued by the GSE had its composition because at the end of the criminal proceedings, on February 10, 2020, the GSE communicated the number of Green Certificates that can be actually withdrawn by A2A for the years 2009, 2010 and 2011 and paid the resulting invoices on March 31, 2020.

In criminal proceedings, after some sentences in the context of alternative rites against some of the defendants, with recognition of minimum compensation and reimbursement of expenses in favor of A2A, the Court of Gorizia, on April 5, 2019, after withdrawing from the Chamber of Council, read out the ruling at the hearing: it acquitted all the defendants on grounds of merit or for prescription, while it sentenced the legal representative of Friul Pellet S.r.l. for failure to supply and for supplies of biomass with a calorific value lower than that contractually envisaged, to 2 years and 8 months' imprisonment and to pay compensation for the damage caused to A2A (to be paid separately). The reasons for the decision were filed in July 2019.

The legal representative of Friul Pellet filed an appeal before the Court of Appeal of Trieste, which is still pending, and A2A has decided not to be a party in the proceedings.

It should be noted that A2A was found to be an injured and damaged party. The Court, on the other hand, ruled that it had not been established that the conditions for the recognition of the damage to the GSE and the Ministry of the Environment had been met, as this could not be considered as automatically proven as the effect of the fraud ordered against A2A. In this latter regard, it is recalled that the Group had not allocated any provision as it had considered being the aggrieved party in the proceedings and that the economic effects at the end of the proceedings would be neutral.

Monfalcone Plant Investigation (RNR 195/17 Public Prosecutor of Gorizia)

On March 08 and 09, 2017, following orders of the Public Prosecutor of Gorizia Republic, the Monfalcone Plant of A2A Energiefuture S.p.A. was inspected during which surveys and samplings were performed (on coal in stock, on the ashes, on fume treatment residues, emissions from the chimney) and documentary acquisitions (on the servers of the emissions monitoring system, on fuel analysis forms, etc.). On the same date, the guarantee information has been notified to three employees, regarding an investigation for the offences referred to in article 452 bis of the Italian Criminal Code. Environmental pollution from alleged conduct up to October 2016. The suspect employees appointed trusted defenders.

Subsequently, between December 2017 and January 2018, and then in December 2019, the Public Prosecutor of Gorizia proceeded with the acquisition of additional documentation at the plant.

The proceeding is still in the stage of the preliminary investigations and it shall be necessary to wait for the results of the investigations ordered by the Prosecutor of Gorizia that requested an extension of the terms for the investigations.

No further action has been currently notified by the Prosecutor.

Prosecutor of Brescia – GIP of Brescia. Criminal proceeding no. 25597/14 RGNR on the alleged “abusive management of special non-hazardous waste” by A2A Ambiente S.p.A.

On July 11, 2017, as part of an investigation concerning 33 natural persons and 14 different legal entities, an employee of A2A Ambiente S.p.A. was served with a notice of guarantee for an investigation into the offence referred to in articles 110, 81 of the Italian Criminal Code and 260 of Legislative Decree no. 152/2006 (illegal trafficking in waste jointly with others) for conduct allegedly committed in 2014 and 2015.

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Subsequently, on September 23, 2017, A2A Ambiente was notified of a hearing setting decree pursuant to Legislative Decree 231/01 to decide on the request, formulated by the Public Prosecutor, for the application of cautionary measures consisting in the seizure of assets for a total amount of about 583,000 euro (considered as "profit of the offence") and in temporary interdiction from the exercise of activity. A2A Ambiente in fact had to answer for administrative responsibility pursuant to Legislative Decree. 231/01.

With a ruling dated October 9, 2017 and November 13, 2017, with a ruling dated December 27, 2017 and filed with the court on December 28, the GIP of Brescia did not consider that as present the conditions justifying the adoption of cautionary measures against A2A Ambiente and therefore rejected the request of the Public Prosecutor.

In particular, the GIP noted that A2A Ambiente has long had an articulated organizational model "on the adequacy of which the Public Prosecutor did not formulate specific remarks, limiting to establishing that the employee operated circumventing the controls provided, a circumstance that however is not valid in itself to prove the administrative responsibility of the entity".

The GIP also underlined that the same Public Prosecutor found that A2A Ambiente reformulated, in a period following the facts, its own MOG in order to better prevent the commission of environmental offenses and considered this circumstance to be evaluated positively for the purpose of judging, as underlined that no concrete advantage emerged from the investigations for A2A Ambiente.

The investigation completion and the notice setting the preliminary hearing were notified to the employee under investigation. The GIP accepted the request of the Public Prosecutor's Office and ordered the filing of the proceedings against A2A Ambiente.

One employee and two former employees of Linea Ambiente/LGH and Linea Ambiente S.r.l. were involved in the same proceeding. Also in this case, one employee was served notice of the investigation conclusion and notice setting a preliminary hearing and the GIP accepted the Public Prosecutor Office's request and ordered the filing for both Linea Ambiente and the former employees.

The preliminary hearing, initially set for March 19, 2020, was then postponed to September 17, 2020 due to the health emergency. At this point, after the definitive filing of the positions of A2A Ambiente, Linea Ambiente and the two former employees of the latter, the proceedings regard, as far as it is concerned, the positions of a commercial employee of A2A Ambiente and one of Linea Ambiente.

Court of Taranto - Criminal Proceeding RGNR 2785/18 - No. 5400/19 R.G. Admin. Resp.

On March 14, 2019, an employee of A2A Ambiente S.p.A., seconded to Linea Ambiente S.r.l. as the company's Chief Operating Officer, was remanded in custody as part of investigations into the offences referred to in articles 319 and 321 of the Italian Criminal Code with reference to an alleged bribery connected with the issue of Executive Decision no. 45 dated April 5, 2018 by the Province of Taranto for the orographic optimization of the Linea Ambiente S.r.l.'s Grottaglie landfill.

On August 1, 2019, the Court of Taranto - Office of the Judge for Preliminary Investigation - at the request of the Prosecutor's Office, ordered the immediate trial, i.e. without a preliminary hearing being held, of the defendants subject to pre-trial custody, including the employee of A2A Ambiente, against whom the measure of pre-trial custody in prison was replaced by house arrest and, subsequently, with the obligation to stay in the municipality of residence, setting the first hearing for this purpose on November 4, 2019. Said proceedings are currently at the stage of the debates.

On May 7, 2020, the Guardia di Finanza notified Linea Ambiente of a preventive seizure order issued by the GIP of Taranto on March 12, 2020 in the context of proceedings no. 2785/18 R.G.N.R. and 5400/19 R.G. Admin. Resp. and deed of execution of preventive seizure pursuant to art. 53 of Legislative Decree 231/01, also valid as guarantee information pursuant to art. 369 of the Italian Criminal Code.

With this last deed, for the first time, Linea Ambiente was informed of the existence of Criminal Proceedings no. 5400/19 R.G. Admin. Resp. of Entities for bribery offences pursuant to article 25, paragraph 2, of Legislative Decree 231/01. Said proceedings are still at the preliminary investigation stage, which has already been extended.

As far as preventive seizure is concerned, this has been arranged up to the amount of 26,273,298 euro (equal to the presumed profit of the offence). On May 13, 2020 was the notification of appointment of a judicial administrator of the assets seized, including company shares and receivables.

On May 21, 2020, Linea Ambiente proposed a request for review, which was discussed in the Council Chamber on June 9, 2020. The cautionary requests have been confirmed. The reasons are pending filing.

On June 11, 2020, a decree releasing the Linea Ambiente portions was notified.

At present, the company considers the risk of confiscation possible and has not set aside a provision equal to the amount of the seizure in consideration of multiple concomitant factors such as I) the still preliminary phase of Proceedings no. 5400/19 R.G. Admin. Resp; II) the exorbitance of the sum determined in the preventive seizure decree as a profit deriving from the hypothetical predicate offence compared to the one considered possible in the future to be the subject of an effective confiscation order; III) the non-determinability of the moment, in any case considerably distant in time, in which the same can be provided, under conditions that are in any case well present to the Company (definitiveness of any sentences).

Milan Public Prosecutor’s Office - Criminal Proceeding no. 33490/16 R.G.N.R.

On May 7, 2019, the Carabinieri investigative unit of Monza showed up at the Amsa S.p.A. headquarters to notify an order for the exhibition of documents issued by the Milan Public Prosecutor’s Office, relating to the documentation concerning three tenders launched by Amsa S.p.A. in 2017-2018, as well as the supplies made to it by a specific supplier. In relation to these proceedings, the Company’s Chief Operating Officer and other employees were investigated, as well as three members of a tender judging committee issued by Amsa S.p.A..

No dispute has been raised against Amsa S.p.A. on the basis of the regulations on the administrative liability of legal persons, as Amsa S.p.A. considers itself to be an “injured party” and, in fact, has filed a complaint with the Public Prosecutor’s Office through a trusted lawyer.

On December 23, 2019, lawyer of Amsa - as the injured party - was served notice for the setting of the preliminary hearing on February 17, 2020. As a result of this hearing, the Judge for Preliminary Investigation adjourned the hearing to May 25, 2020, setting a provisional schedule for its continuation. The measure in question does not cover the members of the tender committee for which a request for filing is expected. Amsa and A2A Calore & Servizi, the latter as it was found to be an injured party in the same proceedings in relation to agreements made to its detriment by some companies competing in the district heating installation tenders, which tended to distort free competition, have joined the civil action.

The proceedings were adjourned to the hearing of November 12, 2020.

Lecce Public Prosecutor’s Office - Criminal Proceeding no. 6369/2019 R.G.N.R.

On February 26, 2020, the Brescia Finance Police turned up at the Rovato headquarters of Linea Ambiente S.r.l. to execute the “Search and Seizure Warrant” issued on February 5, 2020 by the Lecce Public Prosecutor’s Office (Public Prosecutor Mignone) in relation to criminal proceedings no. 6369/2019 R.G.N.R..

The Finance Police then acquired a copy of the company’s Organisational Model and the deeds and documents relating to the information flows destined for the Linea Ambiente S.r.l. Supervisory Body from November 2014 to January 2019.

The criminal proceedings have been filed against the company Linea Ambiente S.r.l. and the legal representative pro tempore for the offences referred to in articles 452 quaterdecies of the Italian Criminal Code (activities organised for the illicit waste trafficking) and 256 and paragraphs 1 and 3 of Legislative Decree 152/2006 (respectively waste collection, transport and disposal activities in the absence of the prescribed authorization/registration and the construction and management of unauthorized landfills) from which the company’s administrative liability derives pursuant to articles 24 and 25 undecies of Legislative Decree 231/2001 and this - the said measure states - “in order to have, with several operations and through the setting up of continuous and organized means and activities, managed and illegally disposed of large quantities of urban waste, creating an illegal landfill, in order to obtain an unfair profit”. These alleged offences were supposedly committed in “Rome and Grottaglie from November 1, 2014 to January 28, 2019 with permanence”.

Together with the “Search and Seizure Warrant”, the Finance Police notified the company “Guarantee and on the right of defence information”, from which it emerges that the company AMA S.p.A. of Rome, “owner of the TMB Rocca Cencia and Salario plants in Rome”, was also entered in the same proceedings.

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The company has been informed that individuals who are legal representatives or directors of Linea Ambiente S.r.l. and AMA S.p.A. during the interested period have received requests to extend the preliminary investigations in the same proceedings.

Investigation related to EPCG service contracts

A2A S.p.A. acquired the shareholding in EPCG by means of the international tender held in 2009, and under the so-called "EPCG Agreement" dated September 3, 2009, it acquired the right to manage the company, appointing - until June 30, 2017 - the Executive Director (CEO) and Executive Managers.

As part of the management of EPCG by A2A S.p.A., also in order to meet the specific indicators provided by the EPCG Agreement, with effect from 2010, A2A S.p.A. and, as of 2011, Unareti S.p.A. (formerly A2A Reti Elettriche S.p.A.), have provided in favour of EPCG services designed to improve the organization and performance of EPCG. Within the broader set of services provided, consulting services were also included provided for the benefit of EPCG by specialized companies outside the A2A Group, the costs of which were first invoiced to A2A S.p.A. as part of more complex and organic consulting services provided in favour of the entire A2A Group and subsequently by A2A S.p.A. charged to EPCG for the activities carried out in favour of the same.

In view of the synergistic importance of intra-group services requested by EPCG to A2A, EPCG applied for and obtained, by the State Commission for the Control of Public Procurement Procedures, a formal exemption - dated September 6, 2010 - by which the non-necessity is enshrined for EPCG to apply the procedures provided by law on Public Procurement in order to purchase services from A2A S.p.A., A2A Reti Elettriche and certain other (identified by name) companies controlled by A2A S.p.A.

From a different perspective, service contracts between EPCG and A2A S.p.A. - which, while benefiting from the aforementioned exemption, would have needed the approval of the EPCG Board of Directors - were not explicitly approved by the Board, which nonetheless approved the budget of each annuity that includes the aforementioned costs. Therefore, the service contracts related to the years 2010, 2011 and 2012 were signed by the CEO pro tempore of EPCG. Pursuant to said contracts, A2A S.p.A. invoiced with regard to the aforementioned annuities a total of 7.75 million euro to EPCG, which has only paid a portion of 4.34 million euro.

For the years 2013, 2014, 2015, 2016 and for the first half of 2017, in the absence of a specific agreement between the shareholders regarding the formalization of a specific service contract, A2A did not proceed with invoicing, although a broad set of services was indeed provided to EPCG also in said years, and A2A incurred the related charges.

Also, certain consulting services were disputed, related to the period 2011 and 2012 and amounting to about 2 million euro, acquired by EPCG directly from external consulting firms of the A2A Group.

At the beginning of 2014, the local "Party of People with Disabilities and Pensioners" proposed a parliamentary interpellation and filed a complaint to the Special Attorney in relation to service contracts entered into by EPCG with A2A and external consulting firms of the A2A Group. Subsequently, in November 2014, the Montenegrin police sent EPCG a request for documents and data that was fully acknowledged by the management of EPCG in the following month. Two further requests for additional information and documentation were then subjected to EPCG directly by the Special Attorney in August 2015 and February 2016, and in both cases the management of EPCG responded comprehensively to the requests of the investigators.

Until said moment, therefore, EPCG had registered only requests for documentation to which it promptly replied, and EPCG as well as A2A had therefore not - until April 15, 2016 - deemed that said requests could result in actions such to configure a risk if not remote - personal or capital - at the expense of its employees and/or the companies.

On April 15, 2016, the former Italian CFO appointed by A2A in EPCG, who resigned from said office only a few days before for reasons completely unrelated to the issue under consideration, was arrested by the Montenegrin police on order of the Special Attorney. The accusation concerns a hypothesis of abuse of office in the management of service contracts stipulated by the same EPCG, and also concerns two other Italian managers seconded by A2A in EPCG in the period 2010-2012, as well as the former pro-tempore Co-General Manager of A2A, who signed the service contracts. On May 6, 2016, the former CFO was released on payment of a bail deposit and withdrawal of the passport. On December 07, 2016, the passport was returned and the CFO returned to Italy. Given the fact that in Montenegro there is a law on liability of legal persons for offences committed by their managers in their own interest, the company also monitored the possibility of extension of the investigation to A2A S.p.A. At June 30, 2017, this event did not occur. However, in the following weeks it emerged from press

reports in Montenegro, and lastly with the notification in Podgorica on July 25, 2017, in the hands of the defendant appointed for this purpose by A2A, that the shares held by A2A in EPCG have been the subject of a cautionary measure of seizure. This cautionary measure was judicially challenged by A2A S.p.A., obtaining complete revocation on September 29, 2017. From the cautionary measure, there was also evidence that the proceedings in question were extended to A2A on July 3, 2017. Subsequently, following a civil/commercial agreement signed by A2A on October 23, 2017 with EPCG, and the resolution adopted by the latter on November 17, 2017 to not constitute as injured party in the criminal proceedings, as there was no damage, the Special State Prosecutor ordered the withdrawal of the accusations on December 28, 2017 and therefore the filing of the proceedings against A2A S.p.A. as well as against the three Montenegro officials, originally investigated like the Italian managers.

Pending the transition to the debating phase of the proceedings against the individuals remaining under investigation, the Court of Podgorica notified them, on December 13, 2019, of the authorization to transfer the proceedings to Italian jurisdiction. Therefore, it is now pending for the case to be taken up by the competent Italian bodies, at which time the procedure will be definitively terminated in Montenegro.

Based on the assessments made, the foregoing and the information available to date, A2A believes that the risk of potential penalties applicable and/or claims for compensation or indemnity actions, can be assessed as remote. Considering the state of the proceedings and for the same reasons outlined herewith, it is also impossible to quantify in certain terms the amount of said indemnities or penalties, direct or indirect.

In view of the above, the company - in accordance with IAS 37 - considered it correct to handle the case in question providing adequate information and not allocating specific risks provision.

Administrative Litigation

Dispute over public water derivation fees

Derivations of public water for the production of hydroelectricity in Lombardy

D.G.R. (Regional Council Resolution) of Lombardy no. 5130-2016 ordered, by implementing paragraph 5 of art. 53-bis of Regional Law 26/2003 introduced by Regional Law 19/2010, the subjection of the Lombardy hydroelectric concessions already expired to an “additional fee” established “provisionally” at 20 €/kW of nominal power of concession, subject to the request for settlement at the outcome of the assessments underway by the regional offices regarding the profitability of expired concessions. Said additional fee is imposed retroactively from the original expiry of each concession; therefore, for the Grosotto, Lovero and Stazzona concessions, it would be effective from January 1, 2011, for the Premadio 1 concession from July 29, 2013 and for the Grosio concession from November 15, 2016.

A2A, which has always challenged even in court the legitimacy - in the first place constitutional - of the aforementioned paragraph 5, challenged, like other operators, the D.G.R. 5130-2016 before the Superior Court of Public Waters, the related and consequent measures which, in relation to the individual concessions, regulated the conditions for the temporary continuation of the concession by imposing, in exchange for the possibility of continuing to operate the concession after its expiry, the payment by the concessionaire of the aforementioned additional fee as well as D.G.R. 7693-2018 and consequent provisions, which reiterated the forecast of the application of an additional fee up to 2020 and, where envisaged, the revocation of the exemption of part of the state fee.

With Sentence no. 65/2020, the TSAP rejected the appeal brought by A2A in relation to the resolutions by which the Lombardy Region regulated the temporary continuation of the Grosotto, Lovero and Stazzona concession, thereby inducing A2A to make a prudent assessment of the remedies available at the competent offices.

The provisions of the Regions concerning the temporary continuation of expired or expiring concessions could, as from 2019, be justified by the provisions introduced by the Conversion Law no. 12/2019 of Legislative Decree no. 135/2018, the constitutional compatibility of which is nevertheless controversial. In this last regard, it should be pointed out that A2A and Linea Green recently appealed before the TSAP for the annulment of General Director Decree (D.D.G.) no. 10544/2019 by means of which the Lombardy Region ascertained and determined the amounts allegedly owed by the concessionaires as additional fees for 2019 as well and with this appeal, they also requested referral to the Constitutional Court of a matter of constitutional legitimacy in relation to the aforementioned provisions introduced by the law converting Decree Law Simplifications with regard to hydroelectric concessions.

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For disputes relating to public water derivation fees, at today's date, the Company set aside risk provisions for the total amount of approximately 47 million euro equal to the entire claim of the counterparties from the expiry of the single concessions until June 30, 2020.

2i Rete Gas S.r.l./Unareti - gas distribution service tender Atem Milano 1

In 2018, 2iRete Gas S.r.l. notified to the Milan Regional Administrative Court an appeal against the award of the gas distribution service ordered by the Municipality of Milan in favour of Unareti S.p.a., requesting the cautionary suspension of the award provision and formulating an investigative request, announcing the right to notify additional reasons as a result of the satisfaction of the request for access to the documents. After the delivery of the part of the offer documents not covered by omissis, 2i Rete Gas S.r.l. notified additional reasons and further detailed some of the reasons for the illegitimacy of the measure already stated in the initial appeal. The Council of State rejected the requests for investigation. The defects of the award could be classified under three categories of topics: reasons for excluding Unareti, reasons for re-establishing the commission and reasons for redefining the ranking. Within the terms, Unareti notified an incidental appeal in which 2i Rete Gas filed an argument with further critical aspects of the proceedings.

After the Council Chamber of November 22, 2018, in which, at the joint request of the parties, the Regional Administrative Court adjourned the hearing on the merits, subsequently to November 21, 2019, the Regional Administrative Court issued Sentence no. 2598 on December 5, 2019 in which it upheld three grounds of appeal by 2i Rete Gas and one ground for the cross-appeal filed by Unareti ordering the annulment of the award unless the Administration ordered it.

2i Rete Gas S.r.l. notified the sentence on January 17, 2020 and all parties notified the appeal to the Council of State; 2i Rete Gas S.r.l. and Unareti appealed the grounds absorbed and not examined at first instance. The Municipality and 2i Rete Gas S.r.l. also requested cautionary suspension of the sentence, which was then waived; therefore, following the Council Chamber set for April 2, all three appeals were discussed at the only hearing on the merits set for July 9, 2020.

AcsM Agam Ambiente S.r.l. vs Municipality of Varese regarding the re-organization of the urban hygiene service

AcsM Agam Ambiente S.r.l. (beneficiary as a result of the extraordinary operations for the award of the urban hygiene service in the municipality of Varese, which was granted to Aspem S.p.A. in 1999 and until December 31, 2030) file a complaint, supplemented by subsequent additional grounds, to the Milan Regional Administrative Court against the numerous municipal acts which established that the award had ceased December 31, 2018 and which ordered the call for tenders for the urban hygiene service in the Municipality of Varese. The appeal was discussed on June 20, 2019 and the Regional Administrative Court filed Sentence no. 1633 on July 16, 2019 rejecting the fourth ground of appeal introduced by AcsM Agam Ambiente S.r.l. (early expiration on December 31, 2018) and affirming the lack of interest of the company in the grounds of appeal related to the tender documents, given that their possible acceptance would not lead to revival of the award of the service terminated on December 31, 2018. The company notified an appeal to the Council of State to request the dismissal of the sentence because it is a mere acceptance of the Municipality's arguments, which the company does not agree on. The hearing on the merits, initially scheduled for March 26, 2020, was then postponed to July 2, 2020, following which the Council of State held the case in decision; on July 10, at the request of the Municipality of Varese, the Council of State filed only the sentence and on July 21, it explained the reasons for the rejection of the appeal.

In the meantime, the service is managed by the company as a result of an extension first ordered to September 30, 2019, and subsequently extended. AcsM Agam Ambiente S.r.l., without giving acquiescence, participated in the tender launched by the Municipality to assign the service and appealed to the Milan Regional Administrative Court against the final award decision that sees it third in the ranking; the hearing on the merits, initially set for May 20, 2020, was postponed to December 22, 2020 in order to obtain the sentence of the Council of State on the legitimacy of the tender.

Judgments on the integration transaction between A2A and AEB S.p.A.

With two initial appeals with cautionary request (R.G. 971/2020 submitted by CST Centro Servizi Termici, Decabo S.r.l. and Lombardy Regional Councillor Marco Fumagalli; R.G. 983/2020 submitted by Seregno Municipal Councillor Tiziano Mariani) filed with the Milan Regional Administrative Court, the Resolution of the Seregno Municipal Council, which approved the merger between A2A and AEB, was challenged.

Following the Chamber of Council of June 24, 2020, with ordinances no. 868/2020 and no. 869/2020, the Regional Administrative Court upheld the cautionary requests submitted by the claimants and suspended the effectiveness of the Resolution of the Seregno Municipal Council, fixing the hearing on the merits for December 2, 2020. The Regional Administrative Court, despite the cautionary phase, did not appreciate the questions referred for a preliminary ruling and referred to the danger and made a summary assessment of the alleged flaws in the transaction represented by the claimants; as a result, it considered that the transaction violated the rules on public companies because there were conditions for the application of public procedures.

A third appeal was subsequently filed (R.G. 1095/2020 filed by Idrotech and Eco Term S.r.l.s.), for which the Chamber of Council of July 15, 2020 has been set for this appeal as well as the hearing on December 2, 2020.

A2A, the Municipality of Seregno and AEB have filed separate cautionary appeals before the Council of State to obtain the annulment and/or reform of the ordinances. The Chamber of Council in the cautionary session has been set for August 27, 2020.

The following information is provided in connection with the main litigation of a fiscal nature.

A2A gencogas S.p.A. (formerly Abruzzoenergia S.p.A.) - General IRES/IRAP/VAT audit for fiscal years 2014 and 2015

On January 19, 2016, the Finance Police - Chieti Unit commenced a general audit of A2A gencogas S.p.A. (formerly Abruzzoenergia S.p.A.) for fiscal years 2014 and 2015 for IRES, IREP and VAT purposes. This audit was completed on May 25, 2016. The company submitted comments to the formal notice of assessment by the inspectors. In December 2016, the Revenue Agency of Chieti issued notices of assessment for IRES, IRAP and VAT for the years 2011 and 2012 and, in August 2017, served notices of assessment for IRES, IRAP and VAT for the years 2013 and 2014. The company has proposed a timely appeal against all the deeds notified. The Provincial Tax Commission of Chieti and the Regional Tax Commission of Pescara issued unfavourable rulings for IRES and IRAP. The appeals against the VAT assessment notices for the years 2011-2014 were rejected by the Provincial Tax Commission of Chieti and upheld by the Regional Tax Commission of Pescara. On May 8, 2019, the Company filed an appeal with the Supreme Court for IRES 2011 and 2012. In February 2020, the Company filed an appeal with the Supreme Court for IRES 2013 and 2014 and IRAP 2011-2014 and a counter-appeal with the Supreme Court for VAT 2011 and 2012. On May 5, 2020, the Company filed a counter-appeal with the Supreme Court for 2013-2014 VAT. A risk provision of 2 million euro has been recognized.

A2A S.p.A. - Registration tax for transfer of business unit and sale of the investment Chi.na.co. S.r.l.

On April 4, 2016, the Provincial Directorate I of Milan - Regional Office of Milan 1 - notified the invitation to appear to provide clarifications on a business transfer in the company Chi.na.co. S.r.l. and the subsequent sale of the investment held in it under control for registration tax purposes. The invitation was followed by a contradictory with the Office and subsequent notification by the latter of the notice of liquidation to the acquiring counterparty, which filed an appeal on September 28, 2016. The Provincial Tax Commission of Milan rejected the appeal with sentence filed on July 07, 2017. On February 13, 2018, the acquiring company filed an appeal, which was rejected by the Milan Regional Administrative Court. On April 8, 2019, the Company filed an appeal with the Supreme Court. On February 21, 2020, the Office filed a counter-appeal and a cross-appeal with the Supreme Court. The risks provision recognized for 1.4 million euro was fully used for the payment of the amounts requested with the liquidation notice.

A2A Ambiente S.p.A. (formerly Aprica S.p.A.) - Technical audit of the Brescia waste-to-energy plant

On March 7, 2013, the Brescia Customs Agency commenced a technical audit of the Brescia waste-to-energy plant owned by Aprica S.p.A. (now owned by A2A Ambiente S.p.A.). The audit was completed on January 16, 2014 with the serving of a formal notice of assessment for the years 2008 to 2011. For 2008 and 2009, the Customs Authority served payment notices together with the respective penalties on May 7 and 21, 2014. The company appealed against these two demands in July 2014. For the year 2009, in December 10, 2014, the company signed a conciliation agreement with the Customs Agency of Brescia for the final closure of the dispute and the consequent termination of the proceedings. For 2008, the litigation of first instance ended favourably for the company. On September 24, 2015, the Office appealed. The company filed counter-claims on November 17, 2015. With sentence of June 6,

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2016, the Regional Tax Commission partially upheld the company's reasons. The Office has appealed to the Supreme Court and the company has resisted with counter-claim and cross-appeal notified on February 20, 2017. The Supreme Court referred the case back to the Regional Tax Commission and the Company filed an appeal for reinstatement on June 8, 2020. On August 5, 2014, the Customs Authority served formal notices of assessment for 2012 and 2013. In March 2016, the company defined with the Customs Agency of Brescia the years from 2010 to 2013 with the payment of the amounts due on the basis of the criteria identified in the deed of reconciliation for the year 2009. As a result of the settlement agreements, the fund has been released for the excess and there is a residual risks provision of 0.3 million euro for the year 2008.

A2A S.p.A. (merging company of AMSA Holding S.p.A.) - VAT Tax assessments for tax years from 2001 to 2005

In early 2006, the Italian Finance Police – Lombardy Regional Unit, Milan – carried out a tax audit of AMSA Holding S.p.A. (now A2A S.p.A.) for VAT purposes for tax years 2001 to 2005.

The audit ended with the issue of a final report contesting the legitimacy of the ordinary VAT rate, in place of the special rate applied by suppliers for waste disposal and plant maintenance, as well as the subsequent deduction made after the invoices issued for these services were duly paid.

The report was followed by formal notices of assessment from the Tax Revenue Office (Milan 3 Office) for each year audited; appeals were then filed with the Provincial Tax Commission within the term provided by law.

The appeals for 2001 and for 2004 and 2005 were discussed on January 25, 2010 and on February 17, 2010 respectively, with a favourable outcome for the company in all cases. The Tax Revenue Office appealed against the verdict of the first court. The Regional Tax Commission rejected this appeal for all three years, 2001, 2004 and 2005.

For 2011, the Tax Revenue Office filed an appeal with the Supreme Court against which AMSA Holding S.p.A. (now A2A S.p.A.), filed a cross-appeal on November 9, 2012. At the hearing on December 12, 2018, the Company requested that the case be suspended in order to assess the facilitated settlement of the dispute. On May 24, 2019, the company filed an application for a facilitated settlement of pending tax disputes and definitively settled its tax claim.

The outcomes of the 2002 and 2003 disputes were also favourable for the company but the Tax Revenue Office filed an appeal against both sentences. The appeal for 2002 was discussed on November 30, 2010, and by way of a sentence lodged on February 2, 2011 the Milan Regional Tax Commission overturned the sentence of the first court, upholding the Tax Revenue Office's appeal on almost all counts with the exception of the hazardous waste category. The Company filed an appeal with the Supreme Court for 2002. The hearing was held on December 12, 2018 and the appeal was upheld and the judgement was adjourned to the Regional Technical Committee (CTR). On December 23, 2019, the Company filed an appeal for reinstatement in CTR and an appeal for revocation with the Supreme Court. For 2003 the appeal made by the Tax Revenue Office was discussed on November 7, 2011 before the Regional Tax Commission which rejected it with a sentence filed on November 11, 2011. The Tax Revenue Office has not appealed to the Supreme Court for 2003, 2004 and 2005 and the sentence has become final, thereby closing the litigation.

No provisions for risks have been recognized.

A2A Ciclo Idrico S.p.A. IMU assessment notices of Municipality of Montichiari for the years 2013-2018

On December 4, 2019, the Municipality of Montichiari (BS) issued notices of assessment for IMU purposes for the years from 2013 to 2018 regarding the purification plant located in the territory of the same municipality. On January 29, 2020, the Company filed an appeal with the Provincial Tax Commission. A risk provision of 0.7 million euro has been recognized.

A2A Energia S.p.A. merging company of Linea Più S.p.A. - General IRES/IRAP/VAT audit for fiscal years 2013 and 2014

On September 17, 2019 the Lombardy Regional Department - Large Taxpayers Section - opened in respect of A2A Energia S.p.A. (merging company of Linea Più S.p.A.) a general audit for IRES, IRAP and VAT purposes for tax periods 2013 and 2014. This audit was completed on October 22, 2019. On December 24, 2019, the Lombardy Regional Department issued notices of assessment for IRES, IRAP and VAT purposes for the tax periods verified. The company is assessing the action to be taken. A risk provision of 10.3 million euro has been recognized.

A2A Ambiente S.p.A. - Tax audit on sulphur dioxide and nitrogen oxides SO2 NOx emissions for the 2014 and 2019 tax periods

On October 24, 2019, the Naples Customs Agency 2 - Excise Department for Audits and Controls - opened against A2A Ambiente S.p.A. an administrative technical audit of the Acerra waste-to-energy plant for the recovery of the tax on emissions of sulphur dioxide and nitrogen oxides for the years 2014-2019. The audit was completed on February 27, 2020. On April 24, 2020, the Company submitted its observations regarding the notice of assessment prepared by the inspectors. No provisions for risks have been recognized.

Consob Recommendation no. 61493 of July 18, 2013

In response to Consob Recommendation no. 61493 published in July 2013, the A2A Group has carried out detailed analyses which have led to the identification of the hydroelectric production sector as the area applicable to the Group.

The capex made in this sector in the first half of 2020 were of a marginal amount and due to ordinary maintenance.

The company has availed itself of the possibility permitted by article 70, paragraph 8 and article 71, paragraph 1-bis of the Issuers' Regulations, and hence of derogating from the requirement to make an information document available to public in the event of significant mergers, spin-offs, share capital increases by means of the contribution of assets in kind, acquisitions and disposals.

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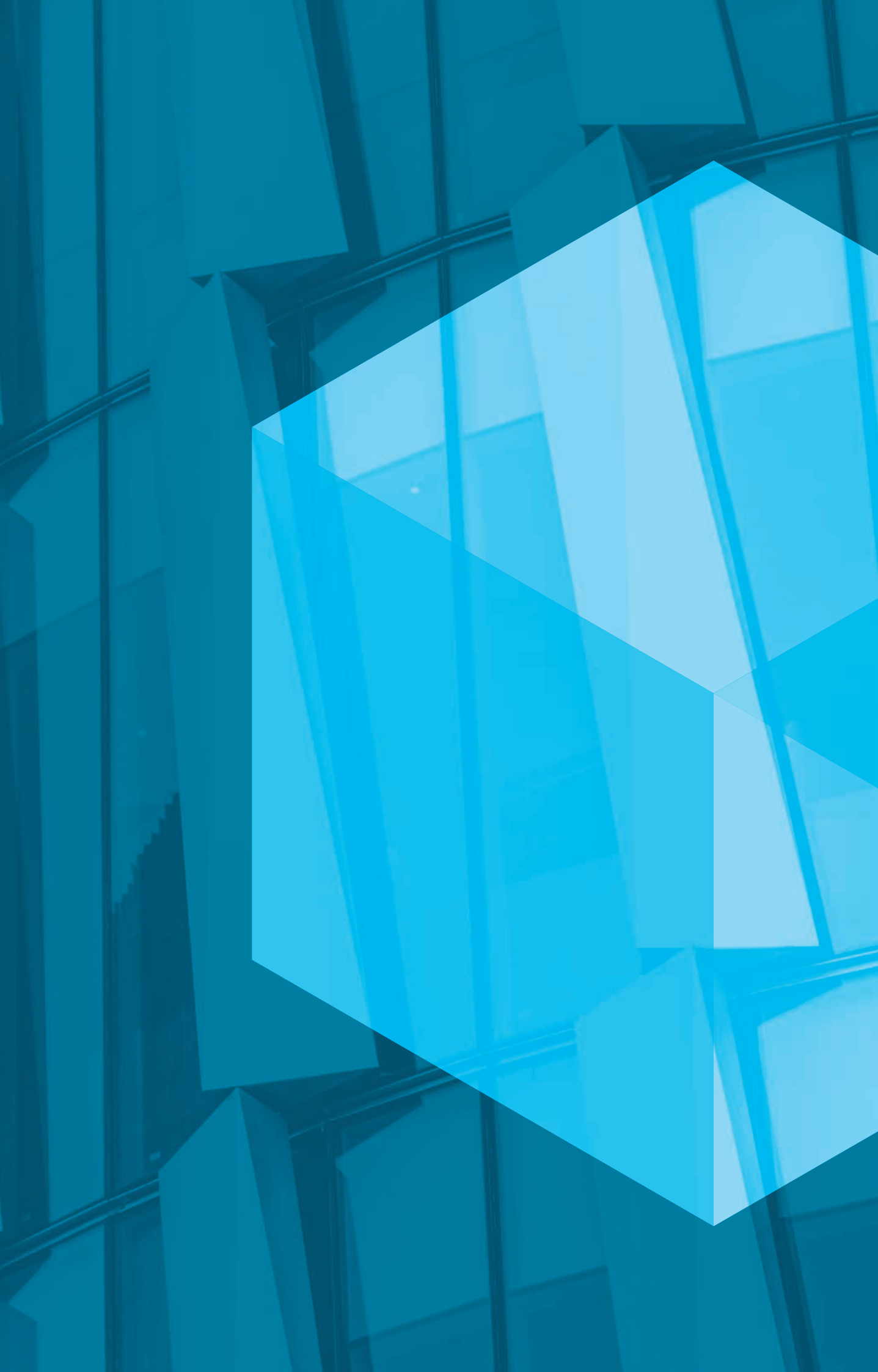
Earnings per share

Note on related party transactions

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

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Attachments
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1 - Statement of changes in tangible assets

Tangible assets <i>millions of euro</i>	NET BOOK VALUE at 12 31 2019	FIRST CONSOLIDATION	CHANGES DURING THE PERIOD		
			INVESTMENTS	CHANGES IN CATEGORY	
Land	112	1			
Buildings	594	10	3	1	
Plant and machinery	3,591	74	56	41	
Industrial and commercial equipment	45		4		
Other assets	127		4	3	
Landfills	28			2	
Construction in progress and advances	131	1	66	(47)	
Leasehold improvements	101		6	1	
Right-of-use assets	140				
Total tangible assets	4,869	86	139	1	

Tangible assets <i>millions of euro</i>	NET BOOK VALUE at 12 31 2018	FIRST-TIME CONSOLIDATION ACQUISITIONS 2019	CHANGES DURING THE PERIOD		
			INVESTMENTS	CHANGES IN CATEGORY	
Land	116				
Buildings	590		3	5	
Plant and machinery	3,460	2	62	5	
Industrial and commercial equipment	38		5		
Other assets	120		7	9	
Landfills	66			1	
Construction in progress and advances	85		65	(20)	
Leasehold improvements	91		9		
Right-of-use assets	54				
Total tangible assets	4,620	2	151	-	

5 Attachments to the notes to the Half-yearly financial report

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3. List of companies included in the consolidated financial statements

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CHANGES DURING THE PERIOD								NET BOOK VALUE AT 06 30 2020
	RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE PERIOD	
	GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
	(1)						(1)	112
						(16)	(12)	592
	14	(10)	(2)	1		(140)	(40)	3,625
						(4)	-	45
			(2)	2		(15)	(8)	119
						(1)	1	29
	(1)						18	150
						(8)	(1)	100
	9	2				(14)	(3)	137
	21	(8)	(4)	3	-	(198)	(46)	4,909

CHANGES DURING THE PERIOD							NET BOOK VALUE AT 06 30 2019	
	RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION		TOTAL CHANGES FOR THE PERIOD
	GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
								116
						(16)	(8)	582
	10	(1)	(9)	8		(130)	(55)	3,407
						(4)	1	39
	(1)		(3)	3		(14)	1	121
	4					(2)	3	69
	(1)						44	129
						(7)	2	93
	121					(13)	108	162
	133	(1)	(12)	11	-	(186)	96	4,718

2 - Statement of changes in intangible assets

Intangible assets <i>millions of euro</i>	NET BOOK VALUE at 12 31 2019	FIRST CONSOLIDATION	CHANGES DURING THE PERIOD		
			INVESTMENTS	CHANGES IN CATEGORY	
Industrial patent and intellectual property rights	31		5	8	
Concessions, licences, trademarks and similar rights	1,616		73	3	
Goodwill	374				
Assets in progress	62		31	(12)	
Other intangible assets	296	11	2		
Total intangible assets	2,379	11	111	(1)	

Intangible assets <i>millions of euro</i>	NET BOOK VALUE at 12 31 2018	FIRST-TIME CONSOLIDATION ACQUISITIONS 2019	CHANGES DURING THE PERIOD		
			INVESTMENTS	CHANGES IN CATEGORY	
Industrial patent and intellectual property rights	24		3	1	
Concessions, licences, trademarks and similar rights	1,502		68	5	
Goodwill	444				
Assets in progress	44		30	(6)	
Other intangible assets	288				
Total intangible assets	2,302	-	101	-	

CHANGES DURING THE PERIOD								NET BOOK VALUE AT 06 30 2020
	RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE PERIOD	
	GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
						(9)	4	35
	(1)		(11)	8		(45)	27	1,643
							-	374
							19	81
	19					(12)	9	316
	18	-	(11)	8	-	(66)	59	2,449

CHANGES DURING THE PERIOD								NET BOOK VALUE AT 06 30 2019
RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE PERIOD		
GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION					
					(7)	(3)	21	
1		(8)	7		(41)	32	1,534	
2						2	446	
						24	68	
(14)	2				(11)	(23)	265	
(11)	2	(8)	7	-	(59)	32	2,334	

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3 - List of companies included in the consolidated financial statements

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)	
Scope of consolidation				
Unareti S.p.A.	Brescia	Euro	965,250	
A2A Illuminazione Pubblica S.r.l.	Brescia	Euro	19,000	
A2A Calore & Servizi S.r.l.	Brescia	Euro	150,000	
A2A Smart City S.p.A.	Brescia	Euro	3,448	
A2A Energia S.p.A.	Milan	Euro	3,000	
A2A Ciclo Idrico S.p.A.	Brescia	Euro	70,000	
A2A Ambiente S.p.A.	Brescia	Euro	220,000	
A2A Montenegro d.o.o.	Podgorica (Montenegro)	Euro	100	
A2A Energiefuture S.p.A.	Milan	Euro	50,000	
A2A gencogas S.p.A.	Milan	Euro	450,000	
A2Abroad S.p.A.	Milan	Euro	500	
Retragas S.r.l.	Brescia	Euro	34,495	
Camuna Energia S.r.l.	Cedegolo (BS)	Euro	900	
A2A Alfa S.r.l. in liquidation	Milan	Euro	100	
Plurigas S.p.A. in liquidation	Milan	Euro	800	
Proaris S.r.l.	Milan	Euro	1,875	
SEASM S.r.l.	Brescia	Euro	700	
Azienda Servizi Valtrompia S.p.A.	Gardone Val Trompia (BS)	Euro	8,939	
YADA ENERGIA S.r.l.	Milan	Euro	2,400	
Consul System S.p.A.	Milan	Euro	2,000	
LaboRAEE S.r.l.	Milan	Euro	90	
Ecodeco Hellas S.A. in liquidation	Atene (Greece)	Euro	60	
Ecolombardia 4 S.p.A.	Milan	Euro	13,515	
Sicura S.r.l.	Milan	Euro	1,040	
Sistema Ecodeco UK Ltd	Canvey Island Essex (UK)	GBP	250	
A.S.R.A.B. S.p.A.	Cavaglià (BI)	Euro	2,582	
Nicosiambiente S.r.l.	Milan	Euro	50	
Bioase S.r.l.	Sondrio	Euro	677	
Aprica S.p.A.	Brescia	Euro	10,000	
Amsa S.p.A.	Milan	Euro	10,000	
SED S.r.l.	Robassomero (TO)	Euro	1,250	
Bergamo Servizi S.r.l.	Brescia	Euro	10	
LA BI.CO DUE S.r.l. (*)	Lograto (BS)	Euro	96	

5 Attachments to the notes to the Half-yearly financial report

- 1. Statement of changes in tangible assets
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3. List of companies included in the consolidated financial statements

- 4. List of shareholdings in companies carried at equity
- 5. List of holdings in other companies

	% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 06 30 2020	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	93.63%	100.00%	A2A S.p.A. (87%) Linea Group Holding S.p.A. (13%)	Line-by-line consolidation
	93.73%	100.00%	A2A S.p.A. (87.20%) Linea Group Holding S.p.A. (12.80%)	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	91.60%	91.60%	A2A S.p.A. (87.27%) Unareti S.p.A. (4.33%)	Line-by-line consolidation
	81.90%	89.00%	A2A S.p.A. (74.50%) Linea Green S.p.A. (14.50%)	Line-by-line consolidation
	70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
	70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
	60.00%	60.00%	A2A S.p.A.	Line-by-line consolidation
	67.00%	67.00%	A2A S.p.A.	Line-by-line consolidation
	74.80%	74.80%	A2A S.p.A. (74.55%) Unareti S.p.A. (0.25%)	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	75.00%	75.00%	A2A Energy Solution S.r.l.	Line-by-line consolidation
	100.00%	100.00%	Amsa S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	68.78%	68.78%	A2A Ambiente S.p.A.	Line-by-line consolidation
	96.80%	96.80%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2Abroad S.p.A.	Line-by-line consolidation
	70.00%	70.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	99.90%	99.90%	A2A Ambiente S.p.A.	Line-by-line consolidation
	70.00%	70.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Aprica S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Aprica S.p.A.	Line-by-line consolidation

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)	
A2A Recycling S.r.l.	Novate Milanese (MI)	Euro	5,000	
A2A Integrambiente S.r.l.	Brescia	Euro	10	
Electrometal S.r.l	Castegnato (BS)	Euro	200	
Areslab S.r.l.	Brescia	Euro	10	
A2A Security S.c.p.a.	Milan	Euro	50	
LumEnergia S.p.A.	Villa Carcina (BS)	Euro	300	
A2A Energy Solutions S.r.l.	Milan	Euro	4,000	
Suncity Energy S.r.l.	Milan	Euro	100	
ES Energy S.r.l.	Jesi (AN)	Euro	10	
A2A Rinnovabili S.p.A.	Milan	Euro	50	
INTHE 2 S.r.l.	Milan	Euro	210	
Fair Renew S.r.l.	Milan	Euro	10	
renewA21 S.r.l.	Milan	Euro	20	
renewA22 S.r.l.	Milan	Euro	220	
renewA23 S.r.l.	Milan	Euro	20	
renewA24 S.r.l.	Milan	Euro	20	
renewA25 S.r.l.	Milan	Euro	20	
renewA26 S.r.l.	Milan	Euro	20	
renewA27 S.r.l.	Milan	Euro	20	
renewA28 S.r.l.	Milan	Euro	20	
Bellariva Enertel 07 S.r.l.	Milan	Euro	10	
Trovosix S.r.l.	Milan	Euro	20	
Solar Sicily S.r.l. unipersonale	Milan	Euro	10	
Onice S.r.l.	Milan	Euro	10	
Des Energia Tredici S.r.l.	Milan	Euro	10	
CS Solar2 S.r.l.	Milan	Euro	15	
I.Fotoguiglia S.r.l.	Milan	Euro	14	
Free Energy S.r.l.	Milan	Euro	10	
Linea Group Holding S.p.A.	Cremona	Euro	189,494	
Linea Gestioni S.r.l.	Crema (CR)	Euro	6,000	
LD Reti S.r.l.	Lodi	Euro	32,976	
Linea Green S.p.A.	Cremona	Euro	48,000	
Linea Ambiente S.r.l.	Rovato (BS)	Euro	19,000	
Lomellina Energia S.r.l.	Parona (PV)	Euro	358	
Agritre S.r.l	Ravenna (RA)	Euro	10	
Tre Stock S.r.l. società agricola	Rovereto (TN)	Euro	10	
Asm Energia S.p.A.	Vigevano	Euro	2,511	

	% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 06 30 2020	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A. (74%) Aprica S.p.A. (1%) Amsa S.p.A. (25%)	Line-by-line consolidation
	90.00%	90.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A. (47.60%) Unareti S.p.A. (19.10%) A2A Ciclo Idrico S.p.A. (10.90%) Amsa S.p.A. (9.50%) A2A gencogas S.p.A. (4.10%) A2A Ambiente S.p.A. (4.10%) A2A Calore & Servizi S.r.l. (2.70%) A2A Energiefuture S.p.A. (2%)	Line-by-line consolidation
	94.72%	94.72%	A2A Energia S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Energy Solution S.r.l.	Line-by-line consolidation
	50.00%	50.00%	Suncity Energy S.r.l.	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	60.00%	60.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
	51.00%	51.00%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	95.60%	93.35%	Linea Group Holding S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	82.51%	100.00%	A2A Ambiente 64.30% Linea Ambiente S.r.l. 35.70%	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	45.00%	45.00%	A2A Energia S.p.A.	Line-by-line consolidation

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Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)	
ACSM-AGAM S.p.A.	Monza	Euro	197,344	
Messina in Luce S.c.a r.l.	Monza	Euro	20	
Lereti S.p.A.	Como	Euro	86,450	
ComoCalor S.p.A.	Como	Euro	3,516	
Serenissima Gas S.p.A.	Como	Euro	9,230	
Reti Valtellina Valchiavenna S.r.l.	Sondrio	Euro	2,000	
Acel Energie S.r.l.	Lecco	Euro	17,100	
Acsm Agam Ambiente S.r.l.	Varese	Euro	4,500	
Varese Risorse S.p.A.	Monza	Euro	6,000	
AEVV Impianti S.r.l.	Monza	Euro	800	
AEVV Farmacie S.r.l.	Sondrio	Euro	100	
A2A Idrogen2 S.r.l.	Milan	Euro	10	

(*) The percentage does not take into account the put option.

	% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 06 30 2020	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
	41.34%	41.34%	A2A S.p.A.	Line-by-line consolidation
	37.74%	70.00%	Varese Risorse S.p.A. (55%) A2A Illuminazione Pubblica S.r.l.(15%)	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	51.00%	51.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	79.37%	78.44%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	99.75%	99.75%	ACSM-AGAM S.p.A. (98.68%) Serenissima Gas (1.07%)	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	ACSM-AGAM S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation

5

Attachments to the notes to the Half-yearly financial report

1. Statement of changes in tangible assets

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3. List of companies included in the consolidated financial statements

4. List of shareholdings in companies carried at equity

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4 - List of shareholdings in companies carried at equity

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)	
Shareholdings in companies carried at equity				
PremiumGas S.p.A. in liquidation	Bergamo	Euro	120	
Ergosud S.p.A.	Rome	Euro	81,448	
Ergon Energia S.r.l. in liquidation	Milan	Euro	600	
Metamer S.r.l.	San Salvo (CH)	Euro	650	
SET S.r.l.	Toscolano Maderno (BS)	Euro	104	
Ge.S.I. S.r.l.	Brescia	Euro	1,000	
Serio Energia S.r.l.	Concordia sulla Secchia (MO)	Euro	1,000	
Visano Soc. Trattamento Reflui S.c.a.r.l.	Brescia	Euro	25	
Sviluppo Turistico Lago d'Iseo S.p.A.	Iseo (BS)	Euro	1,616	
COSMO Società Consortile a Responsabilità Limitata	Brescia	Euro	100	
Crit S.c.a.r.l.	Cremona	Euro	310	
Suncity Group S.r.l.	Pescara	Euro	14	
G.Eco S.r.l.	Treviglio (BG)	Euro	500	
Bergamo Pulita S.r.l.	Bergamo	Euro	10	
Tecnoacque Cusio S.p.A.	Omegna (VB)	Euro	206	
ASM Codogno S.r.l.	Codogno (LO)	Euro	1,898	
Gelsia Ambiente S.r.l.	Desio (MB)	Euro	4,671	
758 AM S.r.l.	Milan	Euro	20	
Como Energia S.c.a.r.l. in liquidation	Como	Euro	20	
SO.E.RA Energy Calor in liquidation	Como	Euro	20	
Prealpi Servizi S.r.l.	Varese	Euro	5,451	
Total shareholdings				

SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 06 30 2020 (THOUSANDS)	VALUATION METHOD
50.00%	A2A Alfa S.r.l. in liquidation	-	Equity
50.00%	A2A gencogas S.p.A.	-	Equity
50.00%	A2A S.p.A.	-	Equity
50.00%	A2A Energia S.p.A.	2,332	Equity
49.00%	A2A S.p.A.	941	Equity
47.00%	A2A S.p.A.	2,431	Equity
40.00%	A2A S.p.A.	744	Equity
40.00%	A2A S.p.A.	10	Equity
24.29%	A2A S.p.A.	748	Equity
52.00%	A2A Calore & Servizi S.r.l.	112	Equity
32.90%	A2A Smart City S.p.A.	104	Equity
26.00%	A2A Energy Solution S.r.l.	5,586	Equity
40.00%	Aprica S.p.A.	3,011	Equity
50.00%	A2A Ambiente S.p.A.	89	Equity
25.00%	A2A Ambiente S.p.A.	246	Equity
49.00%	Linea Gestioni S.r.l.	4,928	Equity
30.00%	A2A Integrambiente S.r.l.	2,977	Equity
20.00%	A2A Rinnovabili S.p.A.	109	Equity
70.00%	ACSM-AGAM S.p.A.	11	Equity
50.00%	ACSM-AGAM S.p.A.	10	Equity
12.47%	ACSM-AGAM S.p.A.	21	Equity
		24,410	

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5 - List of holdings in other companies

Company name	SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 06 30 2020 (THOUSANDS)
Immobiliare-Fiera di Brescia S.p.A.	0.90%	A2A S.p.A.	
AQM S.r.l.	7.80%	A2A S.p.A. (7.52%) LumEnergia S.p.A. (0.28%)	
AvioValtellina S.p.A.	0.18%	A2A S.p.A.	
Banca di Credito Cooperativo dell'Oglio e del Serio s.c.	n.s.	A2A S.p.A.	
Brescia Mobilità S.p.A.	0.25%	A2A S.p.A.	
Consorzio Italiano Compostatori	n.s.	A2A Ambiente S.p.A.	
L.E.A.P. S.c.a.r.l.	8.29%	A2A S.p.A.	
Consorzio Milan Sistema in liquidation	10.00%	A2A S.p.A.	
Consorzio Polieco	n.s.	A2A Ambiente S.p.A.	
Guglionesi Ambiente S.c.a.r.l.	1.01%	A2A Ambiente S.p.A.	
Isfor 2000 S.c.p.a.	5.13%	A2A S.p.A. (4.94%) Linea Gestioni S.r.l. (0.19%)	
S.I.T. S.p.A.	0.26%	Aprica S.p.A.	
Stradivaria S.p.A.	n.s.	A2A S.p.A.	
Tirreno Ambiente S.p.A. in liquidation	3.00%	A2A Ambiente S.p.A.	
IBF Servizi S.p.A.	14.50%	A2A Smart City S.p.A.	
DI.T.N.E. S.c.a.r.l.	1.86%	A2A S.p.A.	
E.M.I.T. S.r.l. in liquidation	10.00%	A2A S.p.A.	
COMIECO	7.50%	A2A Recycling S.r.l. (4.61%) A2A Ambiente S.p.A. (2.89%)	
CONAPI S.c.a.r.l.	18.18%	A2A Recycling S.r.l.	
Blugas Infrastrutture S.r.l.	27.51%	Linea Group Holding S.p.A.	
Casalasca Servizi S.p.A.	13.88%	Linea Gestioni S.r.l.	
Sinergie Italiane S.r.l. in liquidation	14.92%	Linea Group Holding S.p.A.	
Cassa Padana S.c.a.r.l.	n.s.	A2A Smart City S.p.A.	
Confidi Toscana S.c.a.r.l.	n.s.	Linea Ambiente S.r.l.	
Credito Valtellinese	n.s.	Linea Ambiente S.r.l.	
Futura S.r.l.	1.00%	A2A Calore & Servizi S.r.l.	
MORINA S.r.l.	5.00%	Azienda Servizi Valtrompia S.p.A.	
Comodepur S.c.p.a.	9.81%	ACSM - AGAM S.p.A.	
T.C.V.V.V. S.p.A.	0.25%	ACSM - AGAM S.p.A.	
Società Cooperativa Polo dell'Innovazione della Valtellina in liquidation	n.s.	ACSM - AGAM S.p.A. A2A S.p.A.	
Total investments in other companies			7,410
Equity investments held for sale			
Ascopiave S.p.A.	2.16%	A2A S.p.A.	19,801

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The background of the slide features a photograph of a multi-story building facade with numerous windows and architectural details. A semi-transparent blue overlay covers the entire image. A diagonal line splits the image from the bottom-left corner towards the top-right. The area to the left of this line is a lighter, more vibrant blue, while the area to the right is a darker, muted blue.

6

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

In relation to the Evolution of the regulation and impacts on the Business Units of the A2A Group, the main changes in the first half of 2020 are shown below, while as already published in the Financial Statements at December 31, 2019 shall remain valid.

Generation and Trading Business Unit

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

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

With reference to the capacity market discipline, Terna granted an extension to present the authorisation certificates with reference to the unauthorised new capacity awarded at auction. By applying the statutory suspension of the lapse of time limits for administrative proceedings (February 23 - May 15), the new time limits are as follows: September 21, 2020 for delivery 2022 (instead of June 30) and March 23, 2021 for delivery 2023 (instead of December 31, 2020).

Remuneration of production capacity availability

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

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

In April 2020, based on Resolution 289/2019/R/eel, the items relating to the capacity payment were settled for approximately 10.3 million euro. The impact of the mechanism for 2020 is estimated at around 24 million euro.

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

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

1. insolvency proceedings in 2019 for deliveries 2022 and 2023;
2. participation in auctions of existing, new, refurbished, repowered or upgraded capacity. New capacity, which has not been granted an authorization but for which the relevant procedure has been initiated on the qualification date, can be selected in an additional session of the auction that is activated only if the capacity requirements below which the system is inadequate are not met, i.e. the quantity guaranteeing a maximum of 6 h/year of detachment for each area of the market (see point 5);
3. exclusion from participation of existing capacity exceeding both of the following emission limits (i.e. coal and oil) simultaneously: emissions exceeding 550 gr CO₂/kWh (certification at qualification stage), emissions exceeding 350 kg CO₂/kW/average year (ex-post verification). New capacity is excluded only when the emission limit of 550 g CO₂/kWh is exceeded;

- 4. non-cumulation of the consideration with certain incentives provided by the GSE during the delivery period (tariffs, Dedicated Withdrawal and Exchange on Site);
- 5. the target value of the LOLE indicator (loss of load expectation), which expresses the level of adequacy of the Italian electricity system of 3 h/year, is confirmed. The Ministerial Decree establishes an additional level of adequacy of the system, below the target level of 6 h/year, used for the definition of capacity requirements and below which the system is inadequate, is also indicated.

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

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

With Resolution no. 364/2019/R/eel ARERA expressed its opinion on compliance with the Technical Operating Provisions, which Terna consulted and which are an integral part of the capacity market regulations. Lastly, Resolution 365/2019/R/eel established the methods for determining and covering the net expenses arising from the mechanism for the years 2022 and 2023 (pursuant to art. 14 of Resolution ARG/elt 98/11). In particular, the following are envisaged:

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

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

Some operators (including Tirreno Power S.p.A. and Axpo Italia S.p.A.) and Associazione Italia Solare filed an appeal for the annulment of the Ministerial Decree Ministry of Economic Development of June 28, 2019 and all related acts of ARERA and Terna. Some operators have also filed appeals with the EU Court of Justice. The rulings are expected by autumn 2020. A2A S.p.A. came forward as opposing party both in Italy and the EU, defending the legitimacy of the award decision.

In June 2020, Italy submitted to the European Commission the Implementation Plan, a document that illustrates the measures in place or planned by Italy to overcome the adequacy problem that justified the introduction of the capacity remuneration mechanism in Italy (in compliance with article 20 of EU Regulation 943/2019). The European Commission may express a favourable opinion or request amendments within 4 months of receipt of the Plan.

On the basis of the Commission's opinion and the outcome of the appeals, Italy will be able to decide whether to launch further auctions of the capacity market for deliveries from 2024 onwards.

Remuneration of plants essential for the safety of the electricity system

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

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

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

In 2020, the contractual agreement with Terna provides for a cap to settle costs of 53 million euro, while in the current year, the balance of 8 million euro is also expected to be settled in 2017.

Valuation of electrical imbalances

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

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

Period July 2012-August 2014 (excluding June 2014)

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

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

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

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

Period January 2015 - June 2016

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

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

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

These proceedings have been concluded with:

- filing for A2A Energia S.p.A. as there are no conditions for the adoption of prescriptive measures or to initiate sanction proceedings;

- adoption of a prescriptive measure with respect to Linea Più S.p.A. (now A2A Energia S.p.A.), which imposes returning approximately 3.9 million euro to Terna;
- adoption of a prescriptive measure with respect to Enercity S.r.l. (now Suncity Energy S.r.l.), which requires the return to Terna of approximately 737 thousand euro;
- filing for A2A Energiefuture S.p.A. following the subjection of the San Filippo del Mela plant to the essential regime pursuant to Resolution 803/2016/R/eel.

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

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

Linea Più S.p.A. (now A2A Energia S.p.A.) appealed against both the prescriptive measure (at the hearing of June 25, 2020 the Council of State requested further verifications) and the penalty measure (appeal still pending). Enercity S.r.l. (now Suncity Energy S.r.l.) also appealed in court against the prescriptive measure and the appeal to the Council of State is currently pending.

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

On July 6, 2020, the first ruling was published of the Council of State upholding an appellant and opposing the Authority’s actions. The administrative judge did not contest the Authority’s power to impose sanctions (strategic imbalances are considered unlawful) but found that the Authority failed to investigate and provide reasons, annulling the relevant prescriptive measure, without prejudice to the Authority’s power of review. This ruling is relevant to the appeals by A2A Energia S.p.A. and Suncity Energy S.r.l., the rulings of which are still pending.

Forward procurement of resources for voltage regulation in the Brindisi area

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

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

The auction was held on February 20, 2019 and A2A Energiefuture S.p.A. was awarded 286 MVar of reactive energy at a weighted average price of 28,098 €/MVar/year. The first device came into operation on March 1, 2020 and the second on June 1, 2020, one month ahead of the auction.

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The contract provides for the supply of continuous and automatic voltage regulation, without active input, for a value no lower than the contracted power (net of scheduled maintenance and periods of accidental unavailability subject to deductibles). The remuneration is composed of a fixed part - to cover the investment/remuneration and equal to the product between the capacity committed and the price offered - and a variable part - to cover the costs related to the withdrawal of electricity necessary for the operation of the device - net of any penalties. The economic adjustment is made on a monthly basis.

Programmed and accidental unavailability up to a certain threshold is not subject to a penalty, while beyond this threshold there are penalties, which can reach, for each calendar year, up to 120% of the remuneration for each unavailable device. Finally, the guarantee requested by Terna is equal to 120% of the remuneration covered by the contract.

The impact on 2020 in terms of margins is about 4.4 million euro.

Incentives for production from renewable sources

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

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

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

In 2019, the incentive (I) was 92.11 euro/MWh.

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

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

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

On June 14, 2019, the EU Commission approved, under the State Aid Guidelines, the new support scheme for renewable electricity and on August 9, 2019, published in the Official Journal by MiSE, in agreement with MATTM, was RES1 Ministerial Decree, which defines the incentive framework for RES considered mature and with low or decreasing fixed costs: wind, hydroelectric, sewage biogas and PV - the latter was excluded from the previous Ministerial Decrees and benefited from the Energy Account. For other RES, to follow is an additional Ministerial Decree RES 2, expected for 2020).

For plants with a power of less than 1 MW, incentives are granted through registration in registers, while for plants with a higher power there is a downward auction (7 tenders until 2021, the first one on September 30, 2019), with bonus mechanisms (e.g. self-consumption, PV with asbestos removal), specific priority criteria for access and remuneration up to 20/30 years.

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

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

In January 2020, with DCO 1/2020, the GME launched a public consultation on the *Market platform for long-term trading in energy from renewable sources*, as provided for by the Ministerial Decree RES1.

In the first two sessions for access to the incentives, which opened on September 30, 2019 and January 31, 2020, A2A Energy Solutions S.p.A. was awarded a total of around 4.2 MW of PV plants to replace asbestos.

At June 30, 2020, the incentives granted by the GSE to the A2A Group amounted to around 35.1 million euro.

GSE incentive type millions of euro	
Feed-in tariff	19.0
All-inclusive rate	2.8
Energy account (FV)	13.3
Total	35.1

Large hydroelectric derivation concessions

With Law no. 12/2019, converting D.L. December 14, 2018, no. 135 (Simplification DL), the Legislator intervened in article 11-quater with an overall reorganization of the regulations concerning large-scale diversion hydroelectric concessions (> 3 MW).

In recent years, the failure to implement the primary rules aimed at allowing tenders for the award of expired concessions had led to the temporary continuation of management by the current owners. Article 12 of Legislative Decree 79/1999, provided that the Regions should allocate concessions on the basis of criteria that should have been defined by a Ministerial Decree agreed between MiSE and MATTM, and adopted in agreement with the Unified State-Regions Conference, which was never issued, thus resulting in a de facto extension of the management of concessions expired under paragraph 8 bis of said article 12, which provided for the exercise of the concession by the outgoing concession holder until reassignment, under unchanged conditions.

The new rules, introduced in the aforementioned art. 12 through Law no. 12/2019, provide that the Regions shall regulate with their own laws to be issued by March 31, 2020 (deadline extended to October 31, 2020 by the Cura Italia Decree Law) methods, procedures and criteria for the allocation of concessions, which may be entrusted to economic operators identified through a tender, or to public/private joint ventures with selection of the private partner through a tender, or through forms of partnership under Legislative Decree 50/2016.

The procedure for awarding the contract must be started within 2 years of the entry into force of the Regional Laws mentioned above and, in any case, no later than March 31, 2022 (deadline extended to October 31, 2020 by the Cura Italia Decree Law). The duration of the new concessions will be between 20 and 40 years, with possible extension of the maximum period by a further 10 years depending on the complexity of the project proposal and the amount of investment.

The Regions may also require concessionaires to supply 220 kWh per year free of charge for each kW of average rated power of the concession (this provision applies to both existing and expired concessions), while for concessions that have expired and are in temporary continuation, an additional fee is also payable.

6	Evolution of the regulation and impacts on the Business Units of the A2A Group
	Generation and Trading Business Unit
	Market Business Unit
	Waste Business Unit
	Networks and District Heating Business Unit
	International Business Unit

With regard to compensation to outgoing operators, the new law, recalling RD 1775/1933, prescribes:

- for wet works, the transfer without compensation of ownership of the Regions, and in the case of investments - provided they are defined in the deed of concession or authorized by the granting body - an indemnity equal to the value of the part of the asset not depreciated;
- for dry works, the recognition of a residual value derived from accounting records or certified appraisal, net of depreciated assets. In the event of non-use by the incoming concessionaire, removal and disposal of movable property is envisaged at the expense of the proposer, while immovable property remains the property of the entitled parties.

In the context of infringement procedure no. 2011/2026, the European Commission, in view of this new regulatory framework, sent a second letter of formal notice⁽¹⁾ on March 7, 2019 in which the provision for an extension of the expired concessions without competitive procedures is contested, in addition to the obligation for the outgoing operator to pay, with specific reference to “dry” works, compensation higher than the non-depreciated value, in asymmetry of treatment with as provided for in the event of the Regions taking over.

Consistent with the regulatory framework described above, on April 8, 2020, the Regional Administration of Lombardy enacted Regional Law no. 5/2020, which governs the methods and procedures for awarding concessions for large-scale diversion hydroelectric power plants in Lombardy and determines the related fees.

The Lombard law has established the public tender as the main method of allocation, while the deadline for the start of the procedures is set:

- i. for concessions that have already expired and are in temporary continuation within 2 years of the entry into force of the law (i.e., by October 31, 2022), with temporary continuation to be guaranteed until July 31, 2024 pursuant to the Cura Italia Decree Law,
- ii. for concessions expiring after the entry into force of the regional law within 2 years of expiry.

The way in which assets are valued defined in the regional law also states that:

- i. “wet” works pass without compensation into the ownership of the Regions, with indemnity to the outgoing concessionaire equal to the non-depreciated portion of the investments made, at own expense and during the period of validity of the concession, as long as they are provided for in the deed of concession or, in any case, authorized by the granting authority,
- ii. “dry” works, only if expected to be used in the proposed project, are valued at a residual value not yet depreciated, fixed on the basis of accounting data or sworn appraisal.

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

As provided for by art. 31 of Regional Law 23/2019 on the adjustment to the 2020-22 Financial Statements, as of 2020, the concessionaires are also required to supply the Region with electricity free of charge, at least 50% of which must be allocated to public services in the provinces concerned with the derivation, equal to 220 kWh for each kW of concession power. However, it will be monetized - even in full - on the basis of the average hourly zonal prices weighted for the energy fed into the grid on an hourly basis by the hydroelectric plant.

Lastly, an additional fee of 20 euro/kW is payable for concessions under temporary continuation.

ARERA, pursuant to art. 12, paragraph 1-septies of Legislative Decree 79/99 (as amended by Law no. 12/2019), has expressed its favourable Opinion 73/2020/R/eel on Regional Law no. 5/2020 with specific reference to (i) the method for determining and quantifying the variable component⁽²⁾ of the State fee and (ii) the possibility that the percentage functional to the determination of this

¹ On September 26, 2013, the European Commission sent Italy a first letter of formal notice contesting the incompatibility of certain aspects of national legislation with EU law. Moreover, also on March 7, 2019, the same Commission issued formal notice, in addition to Italy, also to Austria, France, Germany, Poland, Portugal, the United Kingdom and Sweden to “ensure that public contracts in the hydroelectric energy sector are awarded and renewed in accordance with EU law”.

² The fixed component of the fee should derive from environmental and/or water-related assessments that are outside the Authority's remit.

component may represent a relevant parameter during the bankruptcy procedure for the assignment of concessions.

In view of the regulatory context described above, on June 12, 2020 the President of the Council of Ministers appealed for constitutional legitimacy against the Lombardy regional law for violation of the distribution of legislative powers and in relation to the recognition of compensation to private individuals subject to limitations in the availability or use of assets owned by them and in any case, necessary for the performance of business activity.

The concessions for large-scale diversion of water held by A2A S.p.A. located in Valtellina (for a nominal capacity of the concession of approximately 200 MW) have for the most part expired⁽³⁾ and exercised in “temporary continuation” regime, also under the terms of Presidential Decree no. X/7693 of January 1, 2018 of the Lombardy Region, which has already requested the payment of an additional fee provisionally determined at the rate of 20 euro/kW, in addition to the non-application of the partial exemption from the state fee on the Premadio 1 and Grosio plants. A2A S.p.A. has not paid the above fee so far and has continued to consider the benefit of the partial exemption to be in force, having challenged all the regional resolutions before the Higher Public Water Court (TSAP) and the Supreme Court⁽⁴⁾ (over 33 million euro claimed by the Region for the period January 1, 2011 - December 31, 2020, in any case set aside in the financial statements).

It should be noted that in July 2020, the TSAP rejected the appeals brought by some hydroelectric operators - including A2A - concerning concessions that expired between January 1, 2011 and 2020, considering the additional fee to be legitimate, without however endorsing the quantification made by the Lombardy Region (which for A2A S.p.A. and Linea Green S.p.A. would amount to approximately 22.5 million euro).

Other A2A S.p.A. concessions (plants in Mese, Udine and Calabria with a total nominal concession capacity of about 345 MW) expire in 2029. The three large-scale derivations of Linea Green S.p.A. (Resio, expired and under temporary continuation until December 31, 2020, Mazzuno and Darfo not yet expired), as well as the concession of Gravedona of ACSM-AGAM S.p.A. expiring in 2029 are also added.

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

With Resolution 114/2019/R/gas, the Authority approved the tariff regulation criteria for the natural gas transport and metering service for the fifth regulatory period (RTTG 2020-2023), while with Resolution 201/2019/R/gas, it approved the recognized revenues of transport companies and determined the fees for 2020. In accordance with the provisions of the TAR Code (EU Regulation 460/2017 establishing a network code for harmonised tariff structures for the transport of gas), the Resolutions introduced some methodological innovations, which are summarised below.

With reference to recognized revenues:

- only costs relating to the purchase of peak capacity for hourly modulation, excluding costs relating to peak capacity, peak injection and space, shall be recognised to the largest transport company;
- the current method of recognising in kind costs relating to network losses, self-consumption and unrecognised gas (GNC) has been exceeded, providing that transmission companies (through Snam Rete Gas) are to procure the necessary quantities of gas necessary on the organized market; these items are valued on the basis of the weighted average price of forward products with delivery to the PSV in the tariff year in question. In addition, a specific mechanism is provided for the recognition of costs for the procurement of Emission Trading System (ETS) securities, granting transport companies a quantity of securities determined according to standard logic and neutralizing the related price risk.

With reference to the structure of the transport tariff:

- the division of the tariff structure and the fees that make it up between capacitive components (applied at the points of entry and exit from the network) and components linked to the volumes transported is confirmed. In relation to the capacitive components, the entry-exit allocation

³ The concessions of Grosotto, Lovero and Stazzona expired 12/31/2010 while the one of Premadio 1 at 07/28/2013 (Premadio 2 has validity until 12/31/2043). The Grosio concession expired on 15/11/2016.

⁴ For information, reference should be made to the section entitled “Update of the main legal and tax disputes still pending”.

40(entry)-60(exit) of costs relating to the national network is confirmed, while, unlike the previous tariff period, the costs of the regional network are attributed 100% to the exit component. The overall ratio is 28(entry)-72(exit). The capacitive components applied at the exit points (CP_u) thus cover the capital costs (as well as those relating to the hourly balancing of the network) of both the national and regional transport networks (the volumetric CR_r fee is therefore eliminated);

- for the purpose of calculating the unit fees of the tariff, the Authority adopted the CWD - Capacity-Weighted Distance method, exceeding the current matrix method. In the new scenario, the Authority applied a 50% discount to the entry/exit fee to storage facilities resulting from the application of the CWD method. Finally, it should be noted that, in application of the new calculation method, it has (i) reduced the entry/exit points from storage from 3 to 1, (ii) reduced the exit areas from 6 to 1 and (iii) merged the entry points from domestic production into 10 hubs;
- a bundled tariff (single fee that includes exit and redelivery fees) is defined as from October 2020, in parallel with the application of the single transfers at the exit point. For the thermal year 2019-2020, capacity transfers will continue to be made at both exit and redelivery points and for the transitional period from January 1 - September 30, 2020, the pro-forma fees will be applied CP_u^N (applied to transfers to exit points of interconnections between the national and regional networks) and CP_u^R (applied to regional network transfers). In relation to the latter, two distinct fees are determined $CP_u^R > 15$ km and $CP_u^R < 15$ km depending on the distance of the redelivery points from the national network;
- the variable fee called CV_u is used to cover operating costs, GNC, self-consumption, losses and ETS costs and is applied to the quantity of gas withdrawn from a network exit point (including exit points to storage facilities and points of interconnection with foreign countries) and no longer to the volumes injected into the national network;
- a new volumetric fee, called CV_{FC} , is introduced for the purpose of recovering sums relating to revenue adjustment factors, applied to redelivery points and exit points to storages. This amount is zero in 2020.

With reference to the metering tariff: a tariff structure is adopted which, in exchange for the possibility for end customers directly connected to the transport network to transfer ownership and management of the metering plant to the transport company, provides for the introduction of a CM^{CF} tariff component, applied only to the redelivery points for which the metering plant has been transferred.

With reference to the tariff components covering the general costs of the gas system: some new features have been introduced, including the elimination of the tariff component ϕ and the creation of the new "Transport expense account" to replace the current "Transport equalisation imbalance account". The CRV^{FG} component is applied to the redelivery points that supply the distribution networks and to those that supply end customers directly connected to the regional networks (it is no longer applied to the volumes of gas fed into the national network).

In terms of process, by May 31 of each year, the Authority will determine and publish the transport and metering tariffs valid for the following year.

As regards 2020, these fees were approved by Resolution 201/2019/R/gas, while for 2021, they were approved by Resolution 180/2020/R/gas.

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

- there was a general increase in 2020 fees compared to 2019. Entry points were the most penalized (+20% for Tarvisio, +96% for Passo Gries) and there was a partial reabsorption of the tariff differences between North and South. Entry costs from regasification terminals also increased (+290% for Olt). Increases in exit were more contained, except for storage exit (+71%). The tariff increases are attributable both to the new tariff methodology and to the increase in revenue to be paid to transport companies;
- for the thermoelectric plants of the A2A Group compared to 2019, it is estimated - on a like-for-like basis for capacity booking of approximately 6,000 MW - that fixed costs will fall by approximately 6.4 million euro by 2021 and - on a like-for-like basis for gas withdrawal - that variable costs will rise by 8.5 million euro by 2020 and 6.8 million euro by 2021.

Settlement gas: new regulation from January 1, 2020

Settlement gas is the regulation defined by ARERA aimed at ensuring the efficient provision of natural gas balancing services, in particular with regard to the determination of physical and economic items for each user (carriers, users of balancing-UdB, users of distribution-UdD, sellers and end customers).

By way of Resolutions 72/2018/R/gas and 148/2019/R/gas, ARERA approved the new regulation on settlement gas (TISG – Consolidated Text Settlement Gas), which came into force January 1, 2020 and which:

- confirms the structure based on monthly balancing sessions with subsequent adjustment sessions (one for the annual adjustment and one for the multi-annual adjustment);
- simplifies procedures for the determination of economic and physical balancing items;
- establishes the adjustment of the deviation fees and the variable fees on the basis of the daily allocation as a result of the adjustment session;
- introduces the temperature factor (Wkr parameter) for the correction of the sampling profiles based on the climatic trend, determined and published by the Balancing Manager (Snam Rete Gas S.p.A.);
- assigns Snam Rete Gas S.p.A. the task of supplying the difference between the quantities withdrawn from the city gates and the sum of expected consumption;
- assigns to the Integrated Information System (SII) the activities of profiling, aggregation of measures, calculation of the annual withdrawal and allocation of withdrawal profiles.

With Resolution 451/2019/R/gas, the Authority has defined the methods of procurement by Snam Rete Gas S.p.A. of the quantities of gas necessary for the functioning of the system - so-called system gas (ψ). This quantity is the sum of self-consumption, network losses, CNG, linepack variations, difference between gas injected and withdrawn in the distribution networks.

From January 1, 2020, the procurement of ψ is carried out in a compartment of MP-GAS referred to as AGS (system gas procurement), through two bilateral auctions at marginal price, the first on day G-1 at 1:30 pm, and the second on day G at 1:30 pm, without any continuous trading market suspension. Snam Rete Gas S.p.A.'s sales offers are valued at 0 euro/MWh while purchase offers are equal to the average weighted average price of title products (SAP) of the 7 days prior to the trading day, increased by 30 euro/MWh. Transactions concluded as a result of these auctions are not included in the SAP price formation.

Resolution 110/2020/R/gas postponed to October 1, 2021, the reform of contributions to the redelivery points (PdR) underlying the city gates - the entry into force of which was initially planned, as defined by Resolution 147/2019/R/gas, for October 1, 2020 - provides:

- ex officio determination of the transport capacity of the PdR underlying the city gates;
- allocation of capacity by the transport company to each BU for the supply of the PdR served (on the basis of the correspondence reports and related monthly updates);
- overcoming the variance penalties system for the PdR underlying the city gates.

Moreover, by Resolution 538/2019/R/gas, the Authority provided transitional solutions to limit any negative impacts for operators resulting from the application of the new settlement method as of January 1, 2020, in the presence of capacity transfers made in an earlier period. Specifically, the Authority provided:

- decriminalization of overcapacity: the overcapacity penalties will be determined at the minimum value between the penalty calculated on the basis of the allocation according to the new methodology and the penalty calculated on the basis of the allocation re-proportioned on the daily input;
- introduction of transfer sessions for upward capacity revision until May 31. These capacity increases shall apply retroactively until October 2019.

With Resolution 155/2019/R/gas, ARERA defined the rules for the RCU population activity with reference to the PdR-BU-DU correspondence relations functional to the start of the new discipline. During the population activity, the SII continued to face technical and IT criticalities, which led to the

failure to implement the combination of a number of PdR owned by A2A Energia S.p.A., for which the SII has activated the Transport Default Service.

During the first few months of 2020, anomalous values were found in the allocation of gas to numerous PdR with daily and monthly measurement details. Following reports from various operators, ARERA intervened with Resolution 181/2020/R/gas, providing for the extraordinary revision of the final financial statements from January to April 2020, with the application of specific criteria to remedy the anomalies recorded, and with Resolution 222/2020/R/gas, integrated the TISG with reference to the communication, as part of the activities under the responsibility of the SII, of the anomalies detected for the purpose of their correction to distribution companies, BU and DU.

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

By means of Resolution ARG/gas 89/10, in the presence of a cyclical phase characterized by a reduction in gas consumption, by an excess of supply and a widespread downward renegotiation of take-or-pay contracts, the Authority had decided to immediately transfer to customers the potential benefits determined by this situation introducing, for thermal year 2010-2011, a reduction coefficient k of 0.925 applied to the indexed component of the QE (variable fee of the final tariff to cover gas procurement costs). This revision was confirmed by the subsequent Resolution ARG/gas 77/11, which provided for an extension until September 30, 2012 of said mechanism, revising slightly upward the value of the coefficient k (from 0.925 to 0.935).

The sales companies of the A2A Group had appealed against both resolutions, contesting the arbitrariness of the value of the k . Following a lengthy dispute, the Council of State, by sentence no. 4825 of November 18, 2016, confirmed the claimants' reasons.

By means of Resolution 737/2017/R/gas, the Authority redetermined the coefficient k , setting it at 0.952 for both thermal years 2010-2012, while by means of Resolution 32/2019/R/gas, it introduced a mechanism for recognising the amounts due to sellers by establishing a socialization component on the distribution tariff and gas metering paid by customers with consumption up to 200,000 Smc/year (sub-component of UG_2 called UG_{2k}). The collection of revenue will take place over a period of 3 years starting on April 1, 2019.

It should be noted that, following the appeal filed in March by the General Confederation of Crafts and Enterprises (Confartigianato) against Resolution 32/2019/R/gas, the Lombardy Regional Administrative Court (TAR) with sentence no. 38/2020 partially annulled the measure regarding the scope of application of the socialization component (which according to the judges should be extended), without prejudice to the right of sales companies to collect the amounts.

With Resolution 247/2020/R/gas, ARERA complied with the TAR ruling, extending the application of the UG_{2k} component also to customers connected to the distribution network with annual consumption >200,000 Scm/year, quantifying it limited to the first 200,000 Scm consumed.

On May 31, A2A Energia S.p.A., Lumenergia S.p.A., ACEL Energie S.p.A. and Enerxenia S.p.A. applied to the CSEA for access for a total of 21.7 million euro, which will be settled in three sessions between April 1, 2020 and December 31, 2021. With regard to the amounts attributable to the Generation and Trading BU of 12.2 million euro, on April 1, CSEA paid 25% of the amount owed, equal to about 3 million euro.

Market Business Unit

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

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

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

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

Law August 4, 2017, no. 124, as amended. (Competition Law 2017) contains provisions aimed at removing regulatory barriers to the opening of markets, promoting the development of competition and guaranteeing the protection of consumers. Article 1, paragraphs 59 to 85, introduces relevant provisions relating to the energy market, providing, inter alia, for the end of price protection schemes from January 1, 2021, for small electricity businesses and from January 1, 2022, for household customers and micro electricity businesses⁵.

The Authority, pending government compliance, has adopted the following measures:

- with Resolution 555/2017/R/com, it regulated a specific type of offer on the free market under similar conditions of protection (PLACET offers) and identified the minimum contractual conditions for all free market contracts for electricity and natural gas;
- by means of Resolution 746/2017/R/com, it imposed information obligations on suppliers regarding gas protection and operators of greater electricity protection to inform customers of the overcoming of price protections;

⁵ According to EU Directive 2019/944, these are companies with less than 10 employees and annual turnover/financial statements not exceeding 2 million euro.

- by means of Resolution 762/2017/l/eel, it proposed to the MiSE the criteria, methods, technical, financial and honorability requirements for registration and the permanence in the Electricity Sales List;
- by means of Resolution 51/2018/R/com, it defined the operating requirements of the Offers Portal for the collection and publication of commercial offers managed by Acquirente Unico S.p.A.;
- submitted to the MiSE the 117/2018/l/com Report on the monitoring of retail markets for electricity and gas necessary for the purpose of verifying the achievement of the objectives set by the 2017 Competition Law;
- by means of Resolution 59/2019/R/com, it approved the voluntary guidelines for the promotion of electricity and natural gas offers in favour of purchasing groups aimed at domestic end customers and small businesses;
- by means of Resolution 270/2019/R/com, ARERA entrusted Acquirente Unico S.p.A. with the creation of the Consumption Portal to increase consumer awareness: in this first phase, the customer may view the historical data of electricity and gas consumption, metering and self-metering of the last 12 months. The granularity of the available data will depend on the type of meter installed and the frequency of making available the readings to the SII;
- with consultation document 220/2020/R/com, it illustrated its proposals for the gradual protection service to be activated with effect from January 1, 2021 for small businesses, other than micro businesses, which will be without a supplier on the free market.

The requirements for the MiSE regarding the following are still pending:

- approval of the Electricity Sales List;
- social bonus reform;
- definition of the modalities and criteria for aware entry of final customers into the market, also taking into account the need to ensure competition and plurality of suppliers and offers in the free market.

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

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

PCV euro/POD/year	2019	2020
Domestic POD	65.38	65.12
Various use POD	121.84	125.64

RCVsm euro/POD/year	2019		2020	
	C-North	C-South	C-North	C-South
Domestic POD	39.77	42.53	41.55	44.10
Various use POD	71.81	116.30	69.67	101.78

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

QVD	2019		2020	
	€/PDR/year	c€/mc	€/PDR/year	c€/mc
Domestic PDR	60.23	0.7946	63.61	0.7946
PDR condominium home use<200,000 Scm/a	79.11	0.7946	83.55	0.7946

Additional mechanisms to cover efficient costs on the electricity protected market

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

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

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

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

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

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

The Authority has given implementation of the relevant provisions:

- Resolution 97/2018/R/com, it defined the scope of application, reaffirmed the timing of entry into force and introduced disclosure obligations on the part of sellers to end customers in order to make them aware of the possibility of objecting to the two-year prescription;
- by means of Resolution 264/2018/R/com, it introduced a transitional measure that allows the transport user, in the event of non-collection due to an exception of prescription raised by the end customer due to settlements and adjustments attributable to the responsibility of the distributor, to request the distribution company to recalculate the amounts;
- by means of Resolution 569/2018/R/com, it introduced new and additional information requirements and defined the procedures for objecting to the prescription in cases where the responsibility for the delay in invoicing is attributable to the seller, the distributor or presumably the customer;
- Resolution 683/2018/R/com extended also to the gas sector the possibility for sellers to request the distributor to refund sums paid in excess in the event of non-payment due to the exceptions of prescription raised by end customers, linked to recalculations for which the responsibility is attributed to the distributor, confirmed the adoption of the per-day criterion for the purposes of identifying the period covered by prescription and postponed to a subsequent measure the definition of the timing and methods by which users of electricity dispatching and users of natural gas balancing, in the event of non-collection due to an exception of prescription raised by the end customer for the responsibility of distributors, are entitled to request Terna S.p.A. and Snam Rete Gas S.p.A., respectively, to review the economic items.

Budget Law 2020 and credit management

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

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

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

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

With regard to the dispute, please see the relevant section of the Generation Trading BU.

In relation to the requests submitted on May 31 by A2A Energia S.p.A., Lumenergia S.p.A., ACEL Energie S.p.A. and Enerxenia S.p.A., with reference to the amounts pertaining to the Market BU of 9.4 million euro, on April 1, CSEA paid 25% of the amount due to the individual companies, equal to approximately 2.3 million euro.

Waste Business Unit

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

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

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

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

Resolution 443/2019/R/rif approved the Pricing Method for the Integrated Waste Management Service (MTR), defining “the criteria for the recognition of efficient operating and investment costs for the period 2018-2021”. The measure applies to the tariff revenues for 2020, compatibly with the time frame envisaged for the approval of the TARI by the Municipal Councils, the deadline of which has been extended to July 31, 2020 as a result of Legislative Decree no. 34/2020 (Relaunch Decree).

MTR requires costs recognized to Operators to be determined starting from the actual costs recognized in the reference year (a-2) resulting from obligatory⁶ accounting sources and those relating to integrated waste management, which includes the following activities:

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

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

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

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

⁶ The method is in continuity with Presidential Decree no. 158/99 of April 27, but provides for the use of obligatory accounting sources for the preparation of the PEF and not forecast costs.

Below are the main features of the new method:

- rab-based with recognition of operating costs, amortization and return on invested capital (WACC at 6.3%, plus 1% for investments after December 31, 2017 related to the regulatory lag);
- it is permitted to include in the tariff forecast costs not yet finalized, without prejudice to subsequent verification mechanisms (COI component);
- sharing of revenues from the sale of materials and energy in a range between 40%-70%, which allows Operators to retain a portion of the income, also depending on the quality of differentiation conferred. The percentage of sharing must be established by the entity territorially competent (ETC);
- adjustments over the years 2018 and 2019, calculated on the basis of the difference between the costs provided for in the 2018 and 2019 PEF and the actual costs in 2017 inflated, to be applied according to gradual mechanisms on the basis of management efficiency indicators taking into account the evaluations of the entity territorially competent (ETC).

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

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

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

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

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

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

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

The Operators shall activate all the necessary tools to make the documents and information accessible and understandable to users, through the publication of obligatory minimum information content to be made available (i.e. regarding the general aspects of operational service management, the Service Quality Charter, the method of calculating the TARI, the environmental performance of management, etc.) through websites, collection documents and communications to users for significant changes

in the performance of activities, forms that can be freely downloaded to file a claim. In addition, the timing of information exchange is regulated in the case of various operators for individual waste management service activities.

End of Waste status

Following Council of State Sentence no. 1229/2018 (February 2018) - according to which article 184-ter of Legislative Decree 152/2006 would not allow local administrations to authorize the end of waste status (EoW) on a case-by-case basis, as said criteria is necessarily established at State or European level -, a regulatory “deadlock” and significant uncertainty for investments in the waste recovery sector has been created.

This situation appeared even more paradoxical since the new Directive 851/2018 of the EU Circular Economy Package (which will be transposed by July 2020) provided the “case-by-case”, thus having *in nuce* the potential for a resolution of the issue raised by the sentence of the Council of State.

To overcome this impasse, following the significant concern of the sector, as part of the conversion of the “Unblock Site” Decree, an amendment was approved that revises paragraph 3 of art. 184-ter of Legislative Decree 152/2006. The scope of this provision is nevertheless limited: in fact, it takes as a reference the types of waste, recovery operations and products obtained regulated by Ministerial Decrees of February 5, 1998, June 12, 2002, no. 161, and November 17, 2005, no. 269, without intercepting the aspects of technological innovation that characterised the new recovery technological processes activated in the period between the publication of the aforementioned Decrees and today. With this amendment, the processes not provided for in the simplified rules (Ministerial Decree of February 5, 1998) could not have recourse to the possibility of applying for case-by-case authorizations issued by the competent local authorities.

In addition to this was the risk of revocation for the case-by-case authorizations already issued: the regulation introduced refers to the MATTM for the issue of the Ministerial Decree containing the guidelines on the basis of which, within the next 12 months, the holders of new authorizations issued in accordance with the aforementioned Ministerial Decree must submit a request for updating to the competent Authority.

In the meantime, with Decree no. 6785 of May 15, 2019, the Lombardy Region has provided that the competent authorities may authorise the production of biomethane, including from waste treatment plants, using the criteria set out in the Ministerial Decree MiSE of March 2, 2018. In June 2019, the same measure was adopted by the Lazio Region. The compliance of these decrees with art. 184-ter of Legislative Decree 152/2006 is, however, controversial.

Once again acknowledging the industry’s concerns about the continuing uncertainty over investments, Law 128/2019 was published on November 2, 2019, converting DL Salva Imprese (Save Companies), which in art. 14 contains the reform of the “cessation of the qualification of waste” with which, in accordance with Directive 851/2018, the previous measure contained in DL Sblocca Cantieri (Unblock Sites) is repealed and the possibility of case-by-case in ordinary proceedings (pursuant to art. 208 TUA or AIA) is reintroduced for the competent administrations (Province/Region), in compliance with certain requirements. The Decree also includes authorizations in place and those in the process of renewal (or for which renewal will be requested within 120 days of the measure coming into force).

However, at central level (MATTM), tasks are assigned for assessment and control, to be carried out with the support of ISPRA, regarding compliance with the requirements of Directive 851/2018 and compliance with the authorizations issued, which may lead to binding requirements for Administrations and companies until revocation of the authorizations. This provision, which is included to ensure central coordination of authorizations issued at local level, does not eliminate the risk to investments arising from the possible ex post revocation of the title.

After the one on PAP (personal absorbent products), in 2020, the EoW decree for end-of-life tyres (ELT) was published, and the one on waste paper and subsequently, on construction and demolition waste is pending.

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

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EU package on the circular economy and the path to its transposition into national law

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

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

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

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

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

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

The Directives must be implemented in the regulations of Member Countries by July 5, 2020. To this end, Law no. 117 of October 4, 2019 (also European Delegation Law 2018) sets out in articles 14, 15 and 16 the principles and criteria that Parliament addresses to the Government for the delegation of the implementation of the aforementioned directives. Among these, probably the most relevant is art. 16 as it contains the criteria to transpose, by April 5, 2020, EU Directive 2018/851 (on waste) and Directive 2018/852 (on packaging) and determines the principles to be contained in the following Legislative Decrees. To date, said principles do not have a “preceptive” value, but a mere “interpretative” value, moreover of primary value.

At the same time, the MATTM has launched a consultative process with the various stakeholders to assess the (extensive) amendments that will have to be made to Legislative Decree no. 152 of 2006 (Consolidated Environment Act TUA) to incorporate the EU provisions, as well as the interventions to adapt the regulatory framework to the new needs of the sector.

After the European Delegation Law established the principles also in consideration of the consultative process of revision of Legislative Decree 152/2006 managed by the MATTM, the CoM of March 5, 2020 approved, on a preliminary basis, the implementing Legislative Decrees.

Among the main issues under review, within the objectives set, are: sector governance and responsibilities, EPR systems and packaging management, traceability system, waste classification, regulation of landfills and particular supply chains (e.g. WEEE). In particular with regard to assimilation, the guideline followed would involve an extension of municipal property rights (inclusion of flows deriving from commercial activities) and the classification as municipal waste also of flows decaying from intermediate treatment (special from municipal).

MATTM Decree of April 21, 2020 - Methods of organization and operation of the national register for the collection of authorization issued and the results of simplified procedures concluded for the performance of recovery operations.

The measure consists of eight articles and an annex and explains how the national register operates, organizes and transmits data. In particular, the Recer uses the telematic platform “Monitor-plans” established by the Ministry of the Environment at the National Register of Environmental Operators where the competent authorities must enter the data of authorizations and the results of simplified procedures using the procedure made available on the web portal of the platform and indicated in Annex 1 of the Decree.

The main function of this tool is to make the data available to public administrations that request it, in order to carry out their institutional tasks, and to the competent authorities that request it, also in order to be evaluated in the preliminary investigation of the proceedings aimed at issuing the authorizations referred to in article 184-ter, paragraph 3, of Legislative Decree 152/2006.

Regulation CEE/EU June 5, 2019 no. 1009 - Regulation EU 2019/1009 of the European Parliament and of the Council of June 5, 2019, laying down rules concerning the provision of EU fertilizers on the market, amending Regulations EC no. 1069/2009 and EC no. 1107/2009 and repealing Regulation EC no. 2003/2003

The Regulation defines harmonized conditions for provision on the European market of fertilizers made from recycled or organic materials, in order to encourage their use in a circular economy. The Regulation applies to fertilizer products bearing the CE marking, while it does not apply to animal by-products or plant protection products. In particular, the Regulation defines, in art. 19, the end of waste criteria for waste contained in EU compliant fertilizer products. The waste in question ceases to be waste when the EU declaration of conformity of the fertilizer product is drawn up (Annexes 4 and 5). Art. 19 and the annexes thereto shall be effective from July 16, 2022.

Directive EU 2019/1937 of the European Parliament and of the Council of October 23, 2019 - On the protection of persons reporting violations of EU law

The main purpose of the Directive is to protect employees from reports made in relation to violations of environmental law in the course of their work, through the whistleblowing system that was introduced in Italy by Law no. 179/2017. Companies, if not already present in relation to their own organization and control models (MOG 231), must adopt a reporting communication system for protection of workers and defense against any retaliation for the activity of the reporting party. The terms and conditions under which the reporting of the violation by external parties will be admissible should also be provided for.

Decision CEE/CEEA/CECA November 12, 2019, no. 2010 - Best Available Techniques (BAT) for waste incineration in accordance with Directive 2010/75/EU of the European Parliament and of the Council

By this Decision, the Commission approved the conclusions on Best Available Techniques (BAT) for waste incineration set out in the Annex to the Decision. The conclusions on best available techniques serve as a reference for setting authorization conditions for installations covered by Chapter II of Directive 2010/75/EU on industrial emissions. Competent authorities should therefore set emission limit values to guarantee that, under normal operating conditions, the emission levels associated with the best available techniques as set out in the BAT conclusions are not exceeded. Existing plants (i.e. those authorized before the publication of the BAT conclusions) have four years to comply with the new standards, whereas new installations (i.e. those authorized for the first time after the publication of the BAT conclusions) have to comply immediately with the new requirements.

Resolution SNPA of November 27, 2019 no. 61 - Guidelines on the classification of waste

On December 24, 2019, this Resolution was published on the SNPA website. Its purpose is to dictate guidelines on the classification of waste. The main objective of the Guideline is to produce manuals for the harmonization, effectiveness, efficiency and homogeneity of the control systems and their management in the national territory, as well as the continuous updating, consistent with the national and supranational regulatory framework, of the operating procedures of the national system and the activities of other technical subjects operating in the environmental field. The measure consists of 4 chapters and 4 appendices and, in addition to analyzing the reference regulatory framework, identifies a methodological approach for the classification of waste, including procedural schemes useful for the attribution of the code and for the assessment of hazardousness. It provides an annotated version of the European list of waste set out in Decision 2000/532/EC, gives examples of the classification of certain types of waste of particular relevance and identifies methodological criteria for the assessment of individual hazard characteristics and persistent organic pollutants.

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Legislative Decree Government December 5, 2019, no. 163 - Sanctioning discipline for violation of the provisions of Regulation EU no. 517/2014 on fluorinated greenhouse gases and repealing regulation EC no. 842/2006

On January 17, 2020, the Regulation providing for sanctions on fluorinated greenhouse gases came into force and is in line with Regulation EU/517/2014 and Presidential Decree 146/2018.

The text provides for administrative sanctions for violation of obligations regarding emission prevention and leakage detection systems.

ISPRA Note - February 11, 2020 - Classification of municipal waste from mechanical and mechanical/biological treatment: supporting indications for producers

In addition to reaffirming the responsibility of producers in this matter and that for absolute non-hazardous waste, there is no need for further assessments, the ISPRA note stresses that in order to arrive at the classification of waste and the definition of related hazard characteristics, a combination of different assessments is necessary to identify the hazardous substances that could reasonably be present (from the analysis of the production/activity cycle generating the waste to the assessment of the hazardous substances potentially present).

Lombardy Regional Law no. 11 of May 21, 2020 - 2020 Simplification Law

With this regulatory deed, the Lombardy Region issued several legislative simplifications, some of which concern environmental aspects:

- 1) Art. 17 - modification of the responsibilities of the Provinces and the Region. The article amends articles 16 and 17 and adds art. 17.1 of Regional Law 26/2003. The amendments concern:
 - art. 16: in addition to the correction of some regulatory references, the most important amendment is that the provinces are given the responsibility to evaluate innovative plant projects, which can be authorized on the basis of articles 29-quater, 208 or 209 of Legislative Decree 152/2006, which produce electricity from renewable sources as per Legislative Decree 387/2003.
 - art. 17: in consideration of the new allocation of provincial responsibilities, the article is amended with the indication of the remaining responsibilities of the Region.
 - art. 17.1: the region, with a future resolution, will implement a single computerized system to manage requests, communications and documentation relating to the procedures for the issue, renewal, variation and transfer of authorizations provided for in the previous articles and regulated in accordance with articles 208, 209 and 211 of Legislative Decree 152/2006.
- 2) Art. 18 and 19 - amendment to article 8 of Regional Law 24/2006. Specifically, with a future resolution, a single computerized system will be provided for the issue, renewal and review of the authorization for atmospheric emissions and the regional and provincial Integrated Environmental Authorization (AIA).
- 3) Art. 20 - Provisions for the simplification of the procedures for the review of the AIA following the issuing of the BAT conclusions.

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

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

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

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

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

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Networks and District Heating Business Unit

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

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

With regard to network service operators, the main initiatives adopted are as follows:

- deferral of regulatory obligations towards the Authority (including data collection and the conduct of conciliation procedures). Moreover, to take into account the restrictive provisions to protect public health, the Authority has extended the use of force majeure also in regulatory areas where it was not previously foreseen to justify the failure to comply with obligations/performance standards (Resolutions 59/2020/R/com and 94/2020/R/com);
- Resolution 190/2020 made the measure provided for in Relaunch Decree Law operational, i.e. discounts on the electricity bills of LV Other Uses (AU) with reference to consumption in May-June-July. Technically, the tariff intervention concerns the reduction of the fixed components of the transport, distribution and metering tariffs and of the general charges for LV AU with committed power > 3 kW, for which the power quota is reduced to zero and only a fixed portion of increased amount (conventionally fixed at the former power quota x 3) is applied, without reducing in any way the actual service in terms of available power. The impact of the manoeuvre amounts to approximately 600 million euro from the State budget, which will pay this amount into the COVID-19 account set up with the CSEA (therefore without any socialization among other electricity users). The provision only has a financial impact for distributors, since the revenue restriction is always guaranteed in the annual equalization with the CSEA;
- Resolution 190/2020/R/eel introduced some changes to the regulation applicable to 2G smart metering commissioning plans, suspending for 2020 some tariff mechanisms (i.e. premiums/penalties defined by the IQI matrix) and penalty mechanisms (i.e. performance, plan progress). These transitional changes will have a limited impact on the PMS2 prepared by Unareti S.p.A. and in the process of approval by the Authority.

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

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

In both cases, the DCVER component to cover the operating costs related to metrological testing has been zeroed, as these costs will be recognized on the basis of a methodology that will consider the costs actually incurred by operators (see next paragraph), as reported in specific data collection that will be initiated in the coming months. Similarly, the operating and capital costs relating to the remote management/remote reading of gas electronic meters will continue to be recognized until 2022.

The 2020 provisional tariffs underlie a WACC of 6.3% for both distribution and metering activities, as provided for by Resolution 570/2019/R/gas.

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

(*) includes the companies LeReti S.p.A., Serenissima Gas S.p.A. and Reti Valtellina Valchiavenna S.r.l..

Lastly, Resolution 571/2019/R/gas determined the obligatory tariffs for final customers for gas distribution and metering services for 2020.

New regulatory period for tariffs relating to the natural gas distribution and metering service

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

- operating costs recognized: update of operating costs recognized from 2020 using the average (50:50) between the actual costs recorded in 2018 and the costs recognized in the same year as the basis of calculation. The update was carried out using the price-cap method taking into account, in addition to the inflation recorded during the period, also an X-Factor differentiated by activity (distribution, marketing and metering) and, limited to distribution, operator size (large, medium, small). Compared with the previous regulatory period, there has been a considerable reduction in the operating costs recognized for each operator cluster/territory density served and an increase in the X-Factors relating to distribution and marketing, while the current level is confirmed for metering (in the case of Unareti S.p.A. it went from 32.79 euro/PDR recognized in 2019 to 26.55 euro/PDR in 2020);
- capital costs: revision of the beta parameter for the calculation of WACC in metering activity to 6.3%, i.e. the same level as for distribution activity. For calculating the invested capital subject to remuneration, as well as the related amortization, a specific mechanism is defined for the gradual release, over a long period of time that goes beyond the individual regulatory period, of the amount of contributions existing at December 31, 2011, currently not considered in defining tariffs.

Further interventions of interest have included:

- adoption of recognition mechanisms for investments in turbo-expanders based on standard costs that reflect the avoided cost of installing traditional expanders. In addition, the compatibility of the electricity production activity of gas distributors with the regulatory requirements for functional unbundling will be examined in greater detail;
- the recognition of costs related to switch metering: the value of single metering that exceeds the level of 2018 is equal to 5 euro/switch metering, in line with the previous regulation;
- confirmation of the current standard costs valid for the purposes of determining investments in gas smart meters and modification of the weights for weighting these costs with those actually incurred by operators (from the current 40 (standard): 60 (actual) at 30:70);
- confirmation of the final recognition, within the limits of a decreasing cap over time, of the operating costs not already covered by the tariffs for the remote metering/remote management of gas smart meters and the provision, pending the definition of the amounts to be paid to individual operators, of a system of advances calibrated on the basis of the latest data available;
- recognition at the end of the list of costs related to the metrological verifications provided for by the regulations in force for the three-year period 2020-2022. Pending the definition of the precise amounts to be paid to individual operators, a system of payments on account is established.

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

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

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

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New regulatory period for quality of the natural gas distribution and metering service

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

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

As far as commercial quality is concerned, no major innovations have been introduced. The only difference from the previous regulations is the way the supply pressure check is carried out at the user's request.

New regulatory period for tariffs relating to the natural gas transport and metering service

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

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

The new RTTG innovated the calculation of the tariff from the matrix method to the CWD - Capacity Weighted Distance method, intervening on the tariff structure (the CRr component disappears, since the total costs of the regional network are completely allocated to the CPu capacity component applied to the exit from the network, the CVfc volumetric component is introduced) and the application methods (application of the CPu to the exit points from the network, CV applied to the volumes withdrawn, etc.).

The new RTTG has also provided for a new way of managing the Corrective Factors (FC) of the eligible revenues, i.e. elements aimed at ensuring, annually and for each operator, equality between the eligible revenues and the revenues actually obtained from the application of the tariffs fixed by the Authority, including revenues from deviations:

- until the end of the fourth regulatory period: these amounts were paid in 4 annual instalments. The amount relating to a single year was then subtracted directly from the eligible revenue for that year;

- from the fifth regulatory period: elimination of instalments and management of these differences directly with the CSEA in the year following the reference year. Eligible revenues are not netted of this amount.

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

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

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

New regulatory period for quality of the natural gas transport and metering service

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

Safety:

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

Continuity:

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

6
Evolution of the regulation and impacts on the Business Units of the A2A Group

Generation and Trading Business Unit

Market Business Unit

Waste Business Unit

Networks and District Heating Business Unit

International Business Unit

Commercial Quality:

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

Metering:

- Resolution no. 522/2019/R/gas initiated a procedure aimed at reorganization of natural gas metering activities at the entry and exit points of the transport network.

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

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

In fact, the sanction was subsequently subject to redetermination, in the amount of 734,000 euro, by order of the Authority no. 569/2013/S/gas, in compliance with Council of State Sentence no. 03007/2011, of the annulment of the previous resolution - in the part relating to the determination of the amount.

The amount to be returned, equal to the difference between the sanction imposed in 2008 and the sanction recalculated in 2013, amounts to 759,000 euro, in addition to the legal interest accrued from the date of payment of the sanction initially determined, until the date of return of the amount unduly paid.

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

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

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

2019 RAB EE value underlying 2020 provisional tariffs <i>millions of euro</i>	Unareti	LD Reti	Reti Valtellina Valchiavenna	Total
RAB EE Distribution	556	35	13	604
RAB EE Metering	60	3	2	65
Total	616	38	15	669

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

At the moment, decisions approving the tariffs are awaited. The same Resolution provided that for distributors serving at least 25,000 POD and up to 100,000 POD, the individual regime applies.

Resolution 568/2019/R/eel set the mandatory tariffs applicable to end customers for the year 2020.

Infra-period updating of tariff regulation of electricity transmission, distribution and metering services

Resolution 568/2019/R/eel approves the tariff regulation for electricity transmission, distribution and metering services for the 2020-2023 (NPR2) regulatory half-period and the related TIT, TIME and TIC⁽⁷⁾ integrated texts. The measure - which is substantially in line with the criteria adopted in the first half-period 2016-2019 (NPR1) - defines in particular:

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

Limited interventions have also been carried out regarding tariff design, in particular for the recharging of electric vehicles.

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

Electrical Quality Integrated Text 2016-2023 and its update for the semi-period 2020-2023

Resolution 646/2015/R/eel (TIQE 2016-2023) introduced numerous provisions aimed at selective (and innovative) promotion of investments in distribution networks.

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

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

As indicated in letter b), would have a positive impact for Unareti S.p.A. so much so that the company, in June 2020, submitted the request to ARERA to participate in said special regulation for the Milan area; the outcome of the request is currently pending.

⁷ TIT (Provisions for transmission and distribution services), TIME (Provisions for the metering service), TIC (Economic Conditions for the connection service).

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

For the purpose of adhering to the mechanism, precise time windows shall be established: by April 30, 2020 for application from 2020 and by February 28, 2021 for application from 2021. In the event of failure to achieve the improvement commitment presented by the distributor, no premium will be paid while the penalties that would have been achieved in the same period, in the absence of the temporary derogation granted to ordinary regulation, will be paid.

Finally, with regard to the regulation of service quality and, in particular, that applicable in the event of prolonged interruptions following disruption due to force majeure, Resolution 553/2019/R/eel implemented sentence no. 1901/2019 of the Lombardy Regional Administrative Court annulling Resolution 127/2017/R/eel, which had significantly increased the indemnities to be paid to LV and MV users by distributors, reducing the ability to socialize the burden through recourse to the Exceptional Events Fund. The Authority, also following a consultation phase and a request for information to companies, confirmed, as from December 20, 2019, the guidelines set out in Resolution 127/2017/R/eel by introducing improvements aimed at removing some disproportion in the amount of the indemnities due to users, and providing for the possibility for operators to obtain the difference between the amount originally recognized as indemnity to users and the amount due to them based on the amendments introduced. The amount for the A2A Group's distributors is very small and equal to about 100,000 euro.

Resilience Plans for the electrical network

TIQE 2016-2023 also contains initiatives aimed at increasing the resilience of the electricity system: specifically, Title 10 was the subject of significant additions aimed at defining the scope of application of resilience obligations, the content and timing of implementation of the action plan and appropriate incentive mechanisms.

Determination 2/2017 DIEU approved the "*Guidelines for the presentation of work plans for increasing the resilience of the electrical system - part one*". This document, which was also issued as a result of the findings of a specific technical panel, illustrates the methodology for identifying priority interventions to address the issue of grid resistance, and to estimate the costs and related benefits associated with these interventions.

The MiSE also intervened on the matter with its own guidance document on prevention and management of adverse weather events that required electricity distribution service concessionaires to integrate development plans with a special section that is very analytical and subject to monitoring, dedicated to interventions to increase the resilience and for robustness of the network.

Following this, Resolution 31/2018/R/eel: i) introduces the obligation for all the main distribution companies⁸ to draw up, and periodically communicate to the Authority, resilience plans for at least three years and coordinated with Terna S.p.A. or with the reference distributor; ii) provides for a single reputational incentive mechanism consisting of the obligation to publish the resilience plan on the website by June 30 of each year.

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

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

⁸ The "main distribution companies" are those with: i) more than 300,000 users; ii) more than 100,000 users; iii) less than 100,000 users directly connected to the National Transmission Grid.

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

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

By June 30, 2020, Unareti S.p.A. sent ARERA the 2020 Development Plan within which the section dedicated to the 2020-2022 Resilience Plan has been prepared, which contains investments for over 17 million euro.

Finally, with reference to the methods and timing of payment of the premiums and penalties, the Resolution provided that, by December 31, of each year from 2020 to 2025, the Authority shall determine the premiums and penalties to be paid into the "Quality of electrical services" account with the CSEA, relating to eligible interventions, with date of actual completion in the previous year. By subsequent Resolution 566/2019/R/eel, it was established that premiums for increasing the resilience of distribution networks will be financed by the MV Users Fund.

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

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

In order to overcome any reluctance on the part of condominiums to carry out such interventions, the Authority has provided, in addition to the definition of a Standard Contract (now being defined before formal submission to ARERA), an incentive mechanism whereby the distributor:

- will have to pay the condominium an amount to cover the costs incurred by the latter in relation to the demolition/restoration works (and possibly electrical works in the case of centralization) in an amount equal to the lesser of the amount actually spent and a parametric amount calculated on the basis of the number of users and the level of value of the building;
- this amount will be recognised under the tariff mechanisms⁹, subject to completion by September 30, 2022 of the obligatory census of its old riser columns.

Unareti S.p.A. will carry out the majority of the interventions in the Milan area, the most critical due to the greater number of "single users" connected to the network through a riser column owned by the distributor (an initial recognition led to the quantification of about 16,800 buildings in Milan for over 27,000 riser columns).

LV electricity 2.0 meters and related smart metering systems

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

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

⁹ The construction works will be recognized in RAB through their accounting in the fictitious asset "Old riser columns", while the costs incurred for the census of the riser columns will be covered with a contribution of 20 euro/condominium surveyed (linked to the completion of the census, as well as the proper storage of information for 5 years) and with a further contribution of 70 euro/condominium surveyed to be included among the costs capitalized in the aforementioned asset "Old riser columns"

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

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

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

- the presence of obligations relating to the start/conclusion of the massive phase of the replacement plan. In particular, for distributors >100,000 PODs, it is assumed that the massive phase will start by 2022 with the objective of replacing at least 90% of the existing meters by 2025. The obligations for distributors <100,000 POD will be defined by a subsequent measure;
- obligation to prepare detailed plans for the commissioning and public consultation of a 2G smart metering system (PMS2), in the terms and manner defined by the Authority;
- determination of a single threshold of 130 euro/meter for the calculation of the maximum capital expenditure condition for admission of the plan to a fast track assessment;
- specific methods for recognizing investments in 2G smart meters, with the possibility of obtaining premiums or penalties based on the degree of consistency between the unit costs actually incurred and those agreed with the Authority. In addition, a maximum number of 2G meters of first installation is provided, recognizable in tariff for each year of the plan (Conventional Plan - PCO, defined according to the tariff profile for the installation of 1G meters). In this context, in light of the critical issues arising from the method previously adopted, a corrective mechanism for the PCO has been introduced, which is modulated so as to anticipate from the end to the beginning of the period the tariff recognition of part of the total quantity of meters to be replaced;
- presence, starting from the 4th year of the plan, of a penalty mechanism in case of non-compliance with the performance levels set by Annex B to Resolution 87/2016/R/eel (% of readings collected within 24 hours and % of success of remote management operations within 4 hours). The annual penalty is based on the capital expenditure allowed for tariff recognition and the level of non-compliance. There is also provision for a penalizing mechanism in the event of non-compliance with the progress of the PMS2. There are, however, annual and multi-year ceilings on the penalties that may be imposed on the operator.

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

Unareti S.p.A. submitted its plan for approval by September 15, 2019, and held a public meeting with stakeholders on November 4, 2019. It involves the replacement of about 1.3 million meters with a massive phase foreseen in the period 2020-2024. The plan is currently being evaluated by the Authority with a resolution expected to be approved by the end of July.

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

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

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

Energy Efficiency Certificates (TEE) or White Certificates (WC) are negotiable certificates issued by the GSE that certify the achievement of energy savings in final uses through the realization of energy efficiency interventions. The system was introduced by Ministerial Decrees July 20, 2004 as amended, and provides for electricity and natural gas distributors to reach annual quantitative targets for primary energy savings, expressed in tonnes of oil equivalent (TOE) saved. A TEE/WC is equivalent to 1 TOE.

Electricity and gas distributors can fulfil the obligation by directly realizing energy efficiency projects that entitle the issue of WC or by purchasing WC from other entities that generate them on the market (typically from Energy Service Companies – ESCO). The Authority defines the methods for determining and paying the tariff contribution to be paid to distributors and the revenue is collected through fees applied to electricity and gas bills.

The table shows the energy saving target level in Italy and for electricity and gas distributors for the years 2017-2020 defined by MiSE Ministerial Decree January 11, 2017.

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

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

The Ministerial Decree of May 10, 2018 amended the Ministerial Decree of January 11, 2017, providing, from June 1, 2018, for the setting of a maximum value (cap) for the tariff contribution of 250 euro/WC.

In addition, from May 15 to May 31, the GSE issues WC to the overrun to distributors that request it at a value equal to the difference between 260 euro/WC and the value of the tariff contribution for the year of obligation, up to a maximum delta of 15 euro.

The obliged parties can request the WC to the overrun until the minimum obligation is reached, provided they are already in possession of a WC amount of at least 30% of the minimum obligation on their ownership account. For the cancellation of these WC, the tariff contribution will not be recognized. Distributors can then redeem all or part of the amount paid for the purchase of WC from the GSE for delivery of WC generated by projects or bought on the market. The redemption takes place from the first WC and is possible only if the obliged party holds a number of WC exceeding the minimum obligation for the current year of obligation. However, it is not possible to proceed with the redemption in the same year of obligation in which the WC were issued.

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

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

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

Unareti S.p.A. is the third distributor in Italy obliged to achieve energy savings under the WC mechanism.

Determination 1/2019 defined the quantities of WC to be cancelled for the mandatory year 2019, while Determination 1/2020 (subsequently corrected for a clerical error by Determination 4/2020) defined those for 2020:

Obligated Party	TEE 2019 Obligation	TEE 2020 Obligation
Unareti S.p.A. (Ele + Gas)	322,008	372,009
Acsm-Agam Reti Gas Acqua S.p.A.	33,022	41,874
Lario Reti Gas S.p.A.	20,649	23,510
LD Reti S.p.A.	71,121	81,140
Total	446,800	518,553

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

Resolution 209/2019/R/efr intervened on the method of calculating the tariff contribution, valid from June 1, 2019. In particular, the calculation included the quantities of TEE traded bilaterally, limited to those at a price below 250 euro/TEE. This change is necessary for the development of the prices of bilateral agreements, the level of which has frequently been above 250 euro/TEE, thus risking misaligning the magnitudes of the relationship between quantity (which under the current system also includes trades above 250 euro/TEE) and prices (which do not consider trades above 250 euro/TEE) within the calculation formula. As a result of this intervention and, therefore, of the reduction in the weight of bilateral contracts (below the cap threshold of 250 euro/TEE), a positive effect is estimated in the formula for calculating the tariff contribution of about 1 euro/TEE (at current market conditions, the tariff contribution should come close to the cap).

On November 28, 2019, the Lombardy TAR (Regional Administrative Court) with sentence no. 2538, in relation to the appeal filed by Acea S.p.A. in its capacity as Areti S.p.A.'s agent, accepted the profiles of illegality in setting the cap of 250 euro/toe at the price of WC traded on the market and considered to be considerable for the purposes of calculating the tariff contribution. As a result of this sentence, the aforementioned cap is annulled as the MiSE has no specific tariff powers on the subject and the Authority would have abdicated the exercise of its regulatory power. The sentence also annuls Resolutions 487/2018/R/efr and 209/2019/R/efr (limited to the amendments made to 487/2018), as well as Determination 4/2019/DMRT/efc that set the tariff contribution for obligation year 2018.

Following and in execution of the sentence, which gave it the powers to determine the aforementioned cap, ARERA published DCO 47/2020/R/efr, which provides the interpretation that, with Ministerial Decree already providing for an (implicit) floor for the cost of virtual WC equal to 10 euro, the value of the cap to the CT must be confirmed equal to 250 euro/TEE. Consequently, the ARERA proposals would confirm the 2018 tariff contribution (equal to 248.89 euro/TEE pursuant to Determination ARERA 4/2019/DMRT) and make only marginal changes for the calculation of 2019 and 2020.

Following the COVID emergency and the consequent postponement of the closure of the 2019 mandatory year to November 30, 2020, the publication of the resolution was postponed.

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

Approval of the water tariff method for the third regulatory period MTI-3

Resolution 580/2019/R/idr approved the SII Tariff Method (MTI-3) for the third regulatory period (2020-2023), defining the rules for calculating the costs eligible for tariff recognition, as well as the limits to the applicable tariff increases (reduced compared to the maximum levels provided for in the previous regulatory period).

In the same Resolution, the parameters were updated of the Water Risk Premium (1.7%), beta (relative riskiness of the SII equal to 0.79), inflation rates to update operating costs, gross fixed investment deflators, and rate t_c for the calculation of financial and fiscal charges. Therefore, the component covering financial and tax charges is 5.2%.

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

The main additions concern:

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

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

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

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

Generation and Trading Business Unit

Market Business Unit

Waste Business Unit

Networks and District Heating Business Unit

International Business Unit

Review of the tariff structure

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

- the distinction between resident and non-resident, condominium and non-domestic users;
- the application to resident domestic users of a standard per capita tariff for a transitional period (2018-2021), defined on a typical family of 3 members (with the first subsidized band equal to 55 m³/year) and an actual per capita tariff (subsidized band calculation: 18.25 m³/y per member) only in the case of self-declaration by regarding the number of members of the family unit;
- the regime tariff structure as from 2022 with the application of the effective per capita tariff to all resident domestic users;
- the rationalization of tariff types for uses other than domestic;
- the application of a trinomy tariff (fixed portion, capacity portion and variable portion) uniform at national level for industrial users related to discharges of waste water authorized to discharge into public sewers. This tariff is designed to intercept with the variable portion, quality in terms of pollution of the discharge, with the capacity portion, the correct allocation of the costs to use the treatment capacity of the plant destined to receive the discharges, and with the fixed portion, the coverage of administrative and metering costs;
- the assessment of the effects of the new tariff structure on the revenues of the manager, providing for two checks, one ex ante and one ex post.

The tariff structure is adopted by the EGA on the basis of the data provided by the operators and was to be submitted to the Authority by June 30, 2018. In the areas in which the A2A Group companies operate, the Varese area concluded the process of approving the tariff structure in accordance with TICSI on July 30, 2019, while the EGA of Brescia approved the new tariff structure on February 13, 2020. The delay in approval by the EGA will lead to the obligation to balance the annuities for 2018, 2019 and part of 2020.

Extension of the two-year prescription also to SII

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

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

The Law required that the prescription not be recognized to customers in the event that the failure or erroneous collection of consumption data was attributable to the customer: article 1, paragraph 295, of the 2020 Budget Law has removed this case and the Authority, with Resolution 189/2020/R/idr, has modified the communication in bills, requiring that the two-year limitation period always be recognized regardless of the established responsibility of the customer.

Settlement of default in SII

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

Following the publication of three DCO, Resolution 311/2019/R/idr (REMSI) defined the rules for the management of default, which will come into force on January 1, 2020:

- a specific procedure, with clearly defined timelines (e.g. an amicable reminder, notice of default, payment in instalments, etc.), that the Operator must adopt before the suspension of service. If the procedure is not followed, the user is entitled to a specific indemnity;

- for households (other than those that cannot be switched off), the suspension of the service is only possible after the limitation procedure;
- for condominium users, the Operator may not proceed to limit/suspend the supply against partial payments equal to at least half of the amount and made within the deadline provided for in the notice of default.

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

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

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

Legislative Decree no. 102/2014, which transposes Directive 2012/27/EC on energy efficiency, granted the Authority specific powers to regulate and control under articles 9, 10 and 16, including in the district heating/cooling sector, even if only on specific aspects, since this is not a RAB-based regulation, as the current one for other network services.

The powers concern, in fact, the preparation of measures on connection and disconnection from the networks, commercial and technical quality of service, the way in which operators make public the prices of the supply of heat.

The Authority is also entrusted with the task of implementing the provisions on metering, billing, access to consumer data for buildings connected to district heating/cooling networks in order to increase customer awareness and change consumer behaviour.

After an initial measure (Resolution 282/2017/R/tlr) on the sub-billing of district heating costs between real estate units in condominiums, Resolution 24/2018/R/tlr (TUAR) defined the criteria for determining connection fees and the procedures for the exercise by the user of the right of withdrawal.

Operators can freely determine the connection fees in compliance with a consistency constraint between costs and revenues (pending the conclusion of the proceeding initiated by means of Resolution 111/2017/R/tlr regarding the separation of accounting and administration, the criteria for the attribution of indirect costs can be defined independently by the operators). At the same time as the connection estimate, information obligations are introduced towards customers regarding the economic conditions of service provision, so as to allow an assessment of the overall cost-effectiveness of the same and ensure maximum transparency.

It is possible for the customer to withdraw from the contract with 30 days' notice, without payment of any penalty by requesting the operator, alternatively, to deactivate the supply or disconnect from the network; in the case of deactivation, the suspension of the supply is envisaged while in the case of disconnection, the operator is required to remove the thermal energy meter and any other parts of the plant. Customers with a contractual power of more than 1,200 kW are excluded from the right of withdrawal.

By means of Resolution 277/2018/R/tlr, the Authority postponed the entry into force of the TUAR from June 1, 2018 to October 1, 2018 with the end of the regulatory period December 31, 2021.

Resolution 661/2018/R/tlr defined the regulation of the commercial quality (RQCT) for the period July 1, 2019 - December 31, 2021. The scope of application of the regulation with regard to end customers depends on the size of the operators determined on the basis of the total contractual power of the customers served: micro operators up to 6 MW, medium operators over 6 MW and up to 50 MW and larger operators over 50 MW.

Services subject to commercial quality include: quotes, execution of works, activations, complaint handling, as well as prompt intervention. Automatic indemnities are provided in the event of non-compliance with specific standards for causes attributable to the operator, the value of which is commensurate with the contractually committed power of the user: for users with contractually

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

Generation and Trading Business Unit

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committed power up to 50 kW (single-family and small condominium users), the indemnity is equal to 30 euro, while for those with contractually committed power above 50 kW and up to 350 kW, the indemnity is equal to 70 euro.

Resolution 574/2018/R/tlr approved the “Information obligations for entities operating in the district heating and cooling sector (OITLR)”.

Resolution no. 313/2019/R/tlr approved the “*Integrated text on the transparency of district heating and cooling services (TITT)*” for the regulatory period January 1, 2020 - 31 December 2023, which defines the minimum contents of supply contracts and billing documents, the methods of publication of prices applied by operators and other information on service quality and environmental performance. The Authority is also planning to launch a price monitoring system.

Resolution 548/2019/R/tlr defined, for the period July 1, 2020 - December 31, 2023, the regulation of the technical quality of the district heating and cooling service (RQTT) with reference to safety and continuity of service. The planned interventions are aimed at guaranteeing a greater degree of protection for users and encouraging the dissemination of the service through a progressive increase in the performance of the sector and the definition of minimum uniform standards at national level, with a consequent improvement in users’ perception of the quality of the service.

The Resolution introduced obligations on emergency response, management of disruption (with a specific general quality standard) and dispersion as well as obligations to record safety and quality information for annual reporting to the Authority.

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

- to October 1, 2020, the entry into force of certain provisions of the TITT concerning the minimum content and transparency of billing documents, as well as service quality and users’ rights, initially planned for July 1, 2020;
- to January 1, 2021, the entry into force of the technical quality regulation, initially scheduled for July 1, 2020.

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

The cogeneration plant combined with district heating in Canavese (MI), belonging to A2A Calore & Servizi S.r.l., obtained the IAFR 5072 qualification from the GSE for the purpose of obtaining GC pursuant to Law no. 239 of August 23, 2004, and the subsequent implementing Ministerial Decree of October 24, 2015. The disbursement period of the incentive started on January 1, 2011 for a duration of 8 years.

On March 12, 13 and 14, 2018, the GSE began a verification process by means of a site visit to analyse the obtaining of both the CAR qualification and of GC.

A first outcome letter sent by the GSE on March 25, 2019 communicated a recalculation of GC for the years 2011-2016, considering that the quantities of heat supplied to users connected to the network laid after December 31, 2009 cannot be eligible for the incentive (i.e. this deadline must refer to the commissioning not only of the production plant but also of the distribution network laid up to that moment). On the basis of this, the GSE has requested the return of 109,032 MWh of GC as well as the return of 23,447 MWh of GRIN Tariff received since January 1, 2016.

On June 24, 2019, A2A Calore & Servizi S.r.l. provided a detailed response:

- not agreeing on December 31, 2009 as the freezing date of the network configuration for the purposes of issuing GC, reserving the right to appeal;
- pointing out, in the alternative, to the GSE: i) the need to correct the calculation of GC in any case because the cartographic documentation provided at the time was not complete and ii) some changes in the calculation method because of the uniqueness of the case of the Canavese network (compared to the other Italian TLR networks that had access to GC, much of the development was after December 31, 2009).

The GSE letter closing the inspection visit with reference only to the verification of the CAR qualification is dated February 2020, while further exchanges are underway to mitigate the impact of the call back of GC already issued. In any case, provisions of 12.5 million euro have already been set aside in the financial statements to cover any amounts that may be claimed back by the GSE.

International Business Unit

The International Business Unit includes the activities carried out by the Group in relation to the management of the investments held by A2A in foreign companies, together with the oversight of international development activities.

Therefore, the Business Unit analyzes and selects the market opportunities, such to allow the provision of know-how and technological systems deriving from the A2A core business; particular focus is on the realization of high-tech waste treatment plants.

On July 1, 2019 was the effectiveness of the transfer of the International Business Unit of A2A in favour of the newly incorporated A2Abroad S.p.A., which will be responsible for the A2A Group’s international development activities.

In 2019, the supply was completed for the design, supply, realization and start-up, as a sub-appointed supplier, of a waste treatment plant with 150,000 t/y of MSW in Spain. It is expected to reach final testing of the plant by 2020.

In June 2019, an additional contract was awarded for the design, supply, realization and start-up, as a sub-appointed supplier, of a waste treatment plant with 78,000 t/y of MSW in Croatia.

With reference to the service activity on waste treatment plants in the United Kingdom, in December 2018, a contract was signed for the provision of services and assistance on plants owned by the customer Renewi with a duration of three years, with the option of extending it for a further two years.

A contract was also stipulated in Scotland in 2019 for on-site and remote assistance services with the Dumfries and Galloway Council.

Preliminary activities and necessary for participation in other international tenders were also carried out.

6	Evolution of the regulation and impacts on the Business Units of the A2A Group
	Generation and Trading Business Unit
	Market Business Unit
	Waste Business Unit
	Networks and District Heating Business Unit
	International Business Unit



The background is a deep blue with a grid of lighter blue lines. On the left, there is a vertical strip of a lighter blue, textured pattern. Overlaid on this is a large, white, semi-transparent number '7'.

7

Scenario
and market

Macroeconomic scenario

Overview

The year 2020 had begun with the global economy stabilising, with confidence in a recovery thanks above all to the easing of trade between China and the United States and greater clarity on the path of Brexit. The emergency linked to the spread of the COVID-19 virus, which started in China and rapidly spread to the entire globe, has had enormous repercussions on the world economic and financial scenario.

The indicators show a generalised deterioration in economic activity in both advanced and developing economies. According to data from the U.S. Department of Commerce, U.S. GDP declined 5% in the first quarter of the year, compared to +2.1% in the last three months of 2019. In view of the fact that the pandemic hit the country towards the end of the quarter, the most evident effects will be seen in the second quarter: GDP is expected to fall to -29.5% (consensus Marketwatch analysts). After falling 6.8% in the first quarter, China grew again in the second quarter of the year to +3.2%, thanks to the rapid recovery in post-epidemic industrial production and the measures taken by the central government to support the economy. Overall, according to data released by the National Bureau of Statistics in Beijing, in the first half of the year, China's economy declined by 1.6% over the same period last year.

According to the preliminary estimate released by the European Commission, the GDP of the Eurozone, after a decline of 3.8% recorded in the first quarter of 2020, is expected to fall to -13.6% in the second quarter. The COVID-19 pandemic and the necessary containment measures have had serious repercussions on both the manufacturing and service sectors, with serious repercussions on production capacity and domestic demand. Within the Eurozone, for almost all economies, a marked downturn is expected in the second quarter of the year, with France and Spain posting the worst performance with a decline in GDP of 16.8% and 16.9%, respectively.

As far as Italy is concerned, the Bank of Italy's analysis shows that GDP fell by 5.3% in the first quarter of 2020, and is expected to fall to -10% in the second, as the damage to economic activity caused by the lockdown is expected to be more significant. In the absence of a second wave of expansion of the epidemic, economic activity will start to recover in the third quarter of this year, also thanks to the support of the government action.

According to the preliminary estimate released by Eurostat, inflation in the Eurozone rose by 0.3% in June compared with 0.1% in May. On average in the first half of 2020, the inflation acquired was +0.7%.

In Italy, according to preliminary estimates by Istat, in June 2020, the national consumer price index (NIC) recorded a negative change of the same intensity as in May and equal to -0.2%. Negative inflation for the second consecutive month is determined by energy prices (-12.1%) while food prices continue to rise (+2.5%). On average in the first half of 2020, the inflation acquired was +0.0%.

Since the outbreak of the COVID-19 emergency, rapid and significant interventions by several central banks have been crucial and have prevented an even greater decline in confidence and asset prices. In all major countries, monetary and fiscal authorities have put in place significant expansionary measures to support household and corporate income, credit to the economy and liquidity in the markets. Of particular importance was the activation and creation of swap lines between the major central banks to provide liquidity at international level. At its meeting on July 16, the European Central Bank (ECB) left the reference rate at an all-time low of zero, reaffirming its commitment to maintain it at the current levels at least until inflation converges to values as close as 2%. The ECB also confirmed the amount of the Pandemic Emergency Purchase Programme (PEPP) of 1,350 billion euro with a time horizon that remains extended at least until the end of June 2021. At the same time, the ECB confirmed that purchases under the Asset Purchase Programme (APP) will continue at a monthly rate of 20 billion euro, and will continue until the ECB starts raising benchmark interest rates. Finally, the European Central Bank will continue to provide ample liquidity through refinancing operations known as TLTROIII (targeted longer-term refinancing operations). At its June meeting, the Federal Reserve (FED) decided to leave interest rates in the 0.00-0.25% range and announced its intention to keep them unchanged until at least 2022.

Since the beginning of the year, the EUR/USD exchange rate has fluctuated significantly, reaching highs of more than 1.14 and lows of around 1.06. The COVID-19 emergency, the ensuing interventions by central banks (FED and ECB in the front line) and the measures announced by the governments most affected by the epidemic, were the main drivers of this fluctuating trend in the first part of the year. The average EUR/USD exchange rate stood at 1.10 dollars in the first half of 2020, down 3% compared to the same period of the previous year.

Outlook

The International Monetary Fund (IMF) describes the Great Lockdown as an unprecedented crisis and reiterates that any second wave of COVID-19 contagion would exacerbate the recession, extending it to 2021.

In the June update of the World Economic Outlook, the International Monetary Fund revised downwards its estimates of global economic performance: world GDP is expected to decline by 4.9% in 2020 (compared to 3% estimated in April), before rising to +5.4% in 2021. For the United States, the decline is expected to be 8%, followed by growth of +4.5% in 2021. Even India will suffer a decline, the first in over 40 years, with GDP expected to fall to -4.5% for the current year, before rising to +6% in 2021. In Brazil, where pandemic management failed, GDP will fall to -9.1% in 2020 and accelerate to +3.6% in 2021. The Russian economy is expected to decline by 6.6% this year with a rebound to +4.1% in 2021. In this scenario, the exception is China, which sees a positive growth value for 2020 albeit limited to +1.0% and then accelerate to over +8% in 2021.

For the Eurozone, the expected decline is 10.2%, followed by a rebound to +6% in 2021. As far as individual European countries are concerned, the German locomotive will decline by 7.8% this year and then grow by +5.4% next year. The International Monetary Fund forecasts for France a decrease in GDP of 12.5% in 2020 and a growth of +7.3% in 2021 while for Spain, it is estimated to be -12.8% this year and an acceleration of +6.3% in 2021. The GDP of Great Britain also fell by double digits, falling by 10.2% in 2020 and rising by 6.3% in 2021.

Italy appears among the most economically affected countries: GDP this year is expected to decline by 12.8% (from -9.1% in the previous estimate) and then rebound in 2021 to +6.3% (1.5 percentage points more than the April estimate). The consequences of COVID-19 also affect Italy's public debt and deficit in the current year. After 134.8% in 2019, debt is expected to rise to 166.1% of GDP in 2020, before falling to 161.9% in 2021. The deficit is expected to be 12.7% of GDP this year (8.3% the April forecast) and 7% in 2021 (3.5% the April forecast).

The slowdown in economic activity will be accompanied by a generalised slowdown in inflation. According to the forecasts made by the European Commission, inflation in the Eurozone is estimated at 0.3% in 2020 and 1.1% in 2021. Revision also on the inflation outlook in Italy, estimated at 0% both this year and next, rising to 1.0% in 2022 (source: Bank of Italy).

The current year, according to the Organisation for Economic Cooperation and Development (OECD), will also see a sharp increase in unemployment both in Europe, where it will rise from 7.7% to 10.4%, and in Italy, where it is expected to reach 12.4%, thus cancelling four years of slow improvements. If the pandemic is kept under control, the unemployment rate in 2021 is estimated at 8.9% in the Eurozone and 11% in Italy.

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

For the year 2020, experts forecast a EUR/USD exchange rate of around 1.11, which will rise to 1.13 dollars in 2021 and then remain around 1.20 dollars in the medium to long term (Source: Ref).

Energy market trends

Electricity

As far as the national electricity scenario is concerned, in the first half of 2020, there was a net requirement of 143,513 GWh (source: Terna) showing a decrease of 8.9% compared to the same period of 2019; in seasonally adjusted terms, and corrected for calendar and temperature, the change is almost equal (-9.0%).

Net electricity production in the first half of 2020 amounted to 130,932 GWh, down 6.1% compared to the same period of 2019. Sources from hydroelectric production increased to 23,173 GWh (+8.2%) and from photovoltaic (+9.2%). Geothermal energy remained substantially unchanged (+0.0%), with a sharp drop both from thermoelectric sources (-11.7%), which stood at 80,702 GWh, and from wind power (-6.7%). National production, excluding pumping, covered 91.2% of the demand for electricity in the first half of 2020, while net imports satisfied the remainder.

In the context of the contingent health emergency resulting from the COVID-19, the PUN (Single National Price) recorded extremely low values with historical lows both for May with a price of 21.79 €/MWh and for June with 28.01 €/MWh (-42.3% compared to June 2019).

On average for the first half of 2020, the PUN declined by 41.5% to 32.2 €/MWh, down from 55.1 €/MWh in the first half of 2019. Downward trend also for average prices in high load time slots (-40.9% for the Peak Load PUN reaching 35.6 €/MWh). The average price in low load time slots (Off-Peak PUN) recorded a decrease of 42.0% to 30.3 EUR/MWh. For 2020, forward curves indicate Base Load PUN prices with average values close to 40 €/MWh.

Natural Gas

On average in the first half of 2020, the demand for natural gas decreased by 10.8% compared to the corresponding period of 2019, amounting to 35,842 Mcm (source: Snam Rete Gas).

The decrease has been generalised. Consumption in the thermoelectric sector (-12.3%) and the industrial sector (-12.7%), within a context characterised by lower demand for electricity and low industrial production, has been at its lowest in recent years. Similar dynamics also for consumption in the civil sector which, in a context characterised by unusually high temperatures, amounted to 17,400 million cubic meters (-9.2%).

On the supply side, lower demand during the period under consideration led to a decrease in imports to 33,691 Mmc (-9.9%), which represented 94.5% of domestic demand net of the trend in stocks. Domestic production, which satisfied the remainder, fell by 16.2% to an all-time low of 1,967 cubic meters. The analysis of imports by entry points shows a consistent and widespread reduction in flows at almost all entry sites, particularly from Mazara and Tarvisio. The drop in gas imported through LNG regasifiers is concentrated in the Cavarzere and Livorno terminals.

Regarding prices, the price of gas to the TTF in the first half of 2020 amounted to 7.5 €/MWh, down 52.1% over the first half of 2019. The downward trend of the PSV price continues, which reached an all-time low of 5.9 €/MWh in June. Specifically, the average price of gas to the PSV for the first half of 2020 amounted to 9.2 €/MWh, down 51.1% compared to the first half of 2019. For 2020, forward curves indicate prices with average values close to 9 €/MWh.

The trend in the respective prices resulted in a PSV-TTF differential of 1.6 €/MWh for the reporting period, down compared to the differential of the first half of 2019 (+3.0 €/MWh). The expectations of the PSV confirm, on average for the year, the current price, while the FTT shows a slight increase, thus reducing the differential between the two prices by around 1.4 €/MWh.

Oil and coal

The Energy Information Administration (EIA) reported that global oil demand decreased by 16.4 million barrels in the first quarter of 2020, when blocks were imposed to combat the COVID-19 pandemic. For the year 2020, the EIA estimates that global demand for oil will decrease by 7.9 million barrels per day and recover by about 5.3 million barrels per day in 2021. On average in 2020, global demand for oil is expected to be 92.1 million barrels per day.

From January to April, Brent lost more than 50%, hitting a low of 26.8 \$/bbl in April and then rising to 40.8 \$/bbl in June. The price rise is due to the agreement reached by OPEC+ countries to cut production by 9.7 million barrels per day for the May-July period. On average in the first half, the price of Brent stood at 42.2 \$/bbl, showing a decrease of 36.2% compared to the same period of the previous year (66.1 \$/bbl). The depreciation of the euro against the dollar mitigated the decrease in prices expressed in €/bbl (-34.6%). On June 6, OPEC countries and those allied to the cartel, including Russia, reached a further agreement to reduce production by 7.7 million barrels per day from August until the end of the year, and then to cut production by 5.8 million barrels per day until April 30, 2022, in order to support the price. The forecast for 2020 is an average price of around 42.0 \$/bbl, and for 2021 slightly above 45.0 \$/bbl (source: Ref).

The coal market has been significantly affected by the collapse in demand generated by the COVID-19 containment measures on a global scale. The EIA estimates a decline in global coal demand in 2020 of around 8% compared to 2019, due to lower Asian demand, especially Chinese and Indian demand. The prices recorded the lowest level in May (38.5 \$/tonne). The average price of coal in the first half of 2020 stood at 45.3 \$/tonne, a decrease of 29.5% over the figure reported in the same period the previous year (64.2 \$/tonne). The depreciation of the single currency versus the dollar lessened the decrease in the prices expressed in euro (-27.7%) compared with the same period in 2019. For the current year, forward curves indicate prices with average values close to 48.6 \$/tonne.

7
Scenario and
market

Macroeconomic
scenario

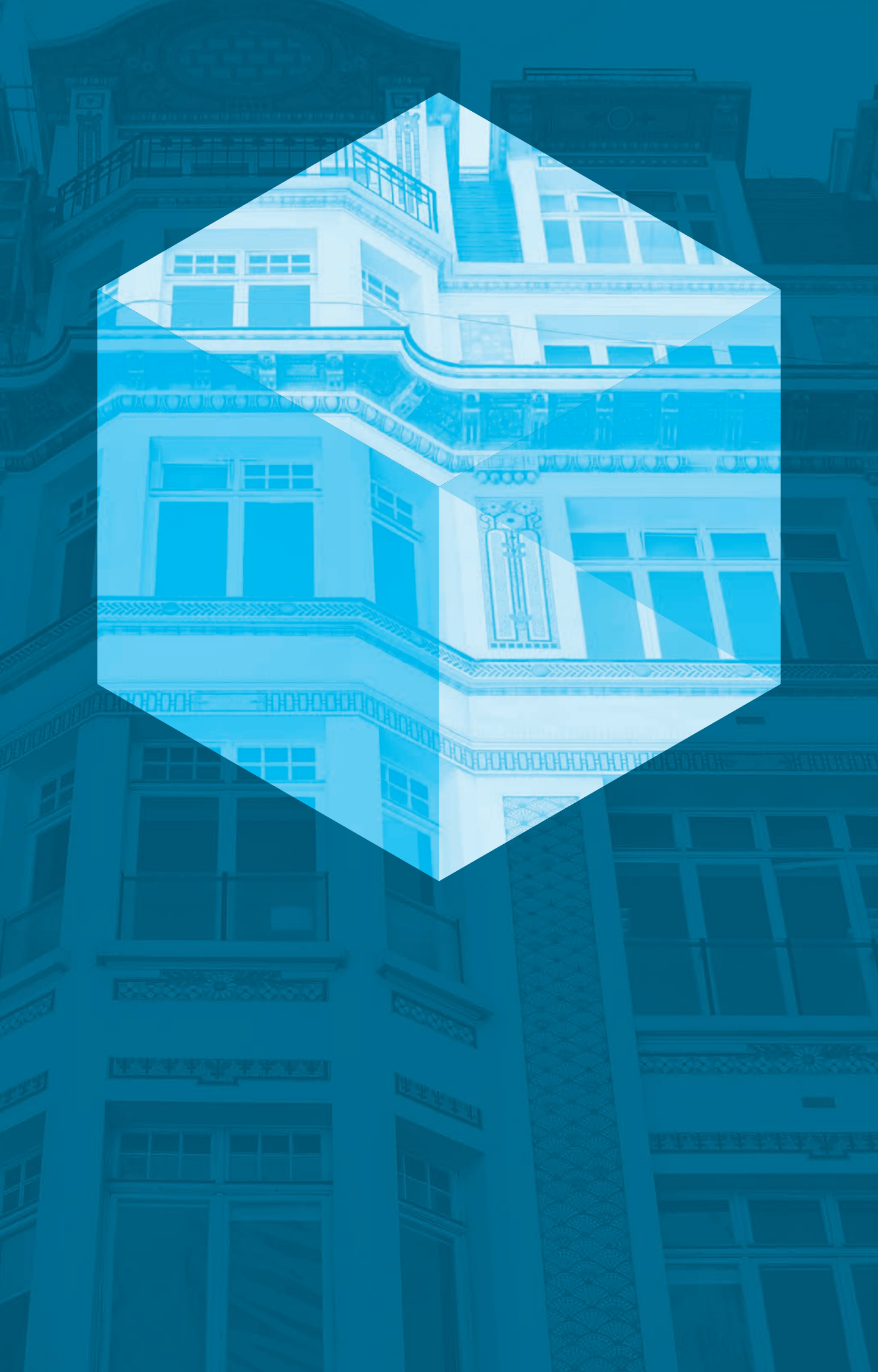
Energy market
trends



The background is a low-angle shot of a modern building's glass and steel facade, creating a strong sense of perspective with diagonal lines. A semi-transparent blue geometric shape, resembling a stylized 'Z' or a series of overlapping planes, is positioned on the left side of the image.

8

Result
sector by sector



Result sector by sector

The A2A Group operates in the following “Business Units”:

Generation and Trading Business Unit

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

Market Business Unit

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

Waste Business Unit

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

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

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

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

Networks and District Heating Business Unit

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

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

International Business Unit

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

Corporate

Corporate services include the activities of guidance, strategic direction, coordination and control of industrial operations, as well as services to support the business and operating activities (ex. administrative and accounting services, legal services, procurement, personnel management, information technology, communications etc.) whose costs, net of amounts recovered from accrual to individual Business Units based on services rendered, remain the responsibility of the Corporate.

1 Total installed capacity of 8.9 GW.

8	Result sector by sector
	<i>Result sector by sector</i>
	<i>Generation and Trading Business Unit</i>
	<i>Market Business Unit</i>
	<i>Waste Business Unit</i>
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	<i>International Business Unit</i>
	<i>Corporate</i>

Generation and Trading Business Unit

The following is a summary of the main quantitative and economic data relating to the Generation and Trading Business Unit.

Quantitative data - Electricity sector

Gwh	06 30 2020	06 30 2019	CHANGE	% 2020/2019
SOURCES				
Net production	6,861	7,685	(824)	(10.7%)
- thermoelectric production	4,882	5,767	(885)	(15.3%)
- hydroelectric production	1,912	1,857	55	3.0%
- photovoltaic production	67	61	6	9.8%
Purchases	20,926	15,024	5,902	39.3%
- stock exchange	8,122	7,810	312	4.0%
- wholesalers	4,339	1,792	2,547	n.s.
- Trading/Service portfolio	8,465	5,422	3,043	56.1%
TOTAL SOURCES	27,787	22,709	5,078	22.4%
USES				
Sales to Group Retailers	6,380	5,706	674	11.8%
Sales to other wholesalers	6,253	5,177	1,076	20.8%
Sales on the stock exchange	6,689	6,404	285	4.5%
Trading/Service portfolio	8,465	5,422	3,043	56.1%
TOTAL USES	27,787	22,709	5,078	22.4%

The sales figures are stated gross of any losses.

The Group's electricity output in the first half of 2020 amounted to 6,861 GWh, to which should be added purchases of 20,926 GWh for a total availability of 27,787 GWh.

Thermoelectric production of the period under review stood at 4,882 GWh (5,767 GWh at June 30, 2019): the negative change is due to the lesser production of combined cycle plants for the reduction of the contestable energy demand and the prolonged downtime of the Monfalcone plant, penalised by a pricing scenario that is not sufficiently remunerative. On the other hand, hydroelectric production was up (+55 GWh) due to higher production of Mese and the Valtellina reservoirs, thanks to higher water inflows recorded in the second quarter of the year, and production from photovoltaic sources (+6 GWh).

Purchases of electricity totalled 20,926 GWh (15,024 GWh at June 30, 2019): the increase was mainly due to higher quantities purchased as part of trading/service activities (+3,043 GWh) and higher purchases on wholesale markets (+2,547 GWh). Quantities purchased on the stock exchange increased by +4%.

In the first half of 2020, in addition to an increase of +56.1% in the quantities intermediated in the service/trading business, higher sales were recorded on wholesale markets (+20.8%), on IPEX (+4.5%) and to the Market Business Unit (+11.8%).

Overall in the period in question, electricity sales of the Generation and Trading Business Unit reached a total of 27,787 GWh (22,709 GWh at June 30, 2019).

Quantitative data - Gas sector

millions of cubic metres	06 30 2020	06 30 2019	CHANGE	% 2020/2019
SOURCES				
Procurement	2,705	3,136	(431)	(13.7%)
Withdrawals from stock	95	10	85	n.s.
Internal consumption/GNC	(3)	(9)	6	(66.7%)
Trading/Service portfolio	4,842	4,093	749	18.3%
TOTAL SOURCES	7,639	7,230	409	5.7%
USES				
Market Business Unit uses	985	1,145	(160)	(14.0%)
Thermoelectric uses	921	1,002	(81)	(8.1%)
District Heating and Waste Business Unit uses	43	49	(6)	(12.2%)
Wholesalers	848	941	(93)	(9.9%)
Trading/Service portfolio	4,842	4,093	749	18.3%
TOTAL USES	7,639	7,230	409	5.7%

Quantities are shown in terms of standard cubic metres with an equivalent Gross Calorific Value (GCV) of 38100 MJ on redelivery.

The volume of gas sold in the first half of 2020 amounted to 7,639 million cubic meters, up 5.7% over the corresponding period of the previous year (7,230 million cubic meters).

The positive change reflects higher volumes traded in the Trading/Service Portfolio (+749 million cubic meters), while there was a decrease in unit sales of natural gas to wholesalers (-93 million cubic meters), volumes sold to the Market Business Unit (-160 million cubic meters), to the Group's other Business Units (-6 million cubic meters) and volumes for thermoelectric uses (-81 million cubic meters) due to lower consumption by combined-cycle facilities this year.

Economic data

millions of euro	01 01 2020 06 30 2020	01 01 2019 06 30 2019	CHANGE	% 2020/2019
Revenues	1,742	2,248	(506)	(22.5%)
Gross Operating Margin - EBITDA	98	117	(19)	(16.2%)
% of Revenues	5.6%	5.2%		
Depreciation, amortizations, provisions and write-downs	(82)	(81)	(1)	1.2%
Net Operating Income - EBIT	16	36	(20)	(55.6%)
% of Revenues	0.9%	1.6%		
Investments	19	31	(12)	(38.7%)
FTE	1,072	1,097	(25)	(2.3%)
Labour costs	46	45	1	2.2%

The revenues amounted to 1,742 million euro, down by 506 million euro compared to the same period of the previous year. The change was brought about by the major decline in prices of both electricity and gas and the lesser volumes sold of the industrial gas portfolio, partly offset by the growth of electricity sales.

The Gross Operating Margin of the Generation and Trading Business Unit amounted to 98 million euro, a decrease of 19 million euro compared to the same period of the previous year. Before non-recurring items (equal to +8 million euro in 2020 and +3 million euro in 2019), Ordinary EBITDA dropped by 24 million euro.

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Result sector by sector
Result sector by sector
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The negative effects accentuated by the emergency situation suffered by the energy generation sector - due to the severely penalising scenario and the decline of the contestable demand - were partly offset by an effective hedging strategy, the better results achieved on the ancillary services market ("MSD"), the greater hydroelectric production and a significant containment of operating costs.

Depreciation, amortization, provisions and write-downs totalled 82 million euro (81 million euro at June 30, 2019). The higher depreciation in the first half of 2020 due to the impairment reversal of the 400 MW groups of Mincio, Chivasso and Sermide at December 31, 2019 was offset by lower provisions for risks.

As a result of the above changes, net operating income amounted to 16 million euro (36 million euro at June 30, 2019).

In the first half of 2020, capex were 19 million euro, mainly related to extraordinary maintenance works carried out on the thermal plants (approximately 6 million euro) and on the hydroelectric units (approximately 2 million euro). Development works were also carried out for a total of 10 million euro, related to Brindisi plant (installation works on the synchronous compensators), photovoltaic plants (start of new plant developments) and ICT projects. Finally, in the period under review, activities were carried out for adjustments to standards for approximately 1 million euro.

In the first half of 2020, FTE amounted to 1,072 units (1,097 FTE in the first half of 2019). The change is due to the deferral of hiring related to the turnover and continuation of the efficiency plan activated for some hydroelectric generation facilities.

Market Business Unit

The following is a summary of the main quantitative and economic data relating to the Market Business Unit.

Quantitative data

	06 30 2020	06 30 2019	CHANGE	% 2020/2019
Electricity Sales				
Electricity Sales Free Market (GWh)	6,286	5,651	635	11.2%
Electricity Sales under Greater Protection Scheme (GWh)	613	737	(124)	(16.8%)
Electricity Sales Safeguard Market (GWh)	97	112	(15)	(13.4%)
Total Electricity Sales (GWh)	6,996	6,500	496	7.6%

	06 30 2020	06 30 2019	CHANGE	% 2020/2019
POD Electricity				
POD Electricity Free Market (#/1000)	731	636	95	14.9%
POD Electricity under Greater Protection Scheme (#/1000)	461	524	(63)	(12.0%)
Total POD Electricity (#/1000)	1,192	1,160	32	2.8%

	06 30 2020	06 30 2019	CHANGE	% 2020/2019
Gas Sales				
Gas Sales Free Market (Mcm)	932	1,030	(98)	(9.5%)
Gas Sales under Greater Protection Scheme (Mcm)	303	362	(59)	(16.3%)
Total Gas Sales (Mcm)	1,235	1,392	(157)	(11.3%)

	06 30 2020	06 30 2019	CHANGE	% 2020/2019
PDR Gas				
PDR Gas Free Market (#/1000)	773	681	92	13.5%
PDR Gas under Greater Protection Scheme (#/1000)	722	811	(89)	(11.0%)
Total PDR Gas (#/1000)	1,495	1,492	3	0.2%

The quantities are stated gross of losses.
The data related to the POD and PDR does not include the numbers relating to large customers.

In the first half of 2020, the Market Business Unit sold 6,996 GWh of electricity, up 7.6% on the previous year. Despite the slowdown in commercial activity and the reduction in unit consumption as a result of the COVID emergency, the increase recorded is mainly due to higher quantities sold to large customers in the free market.

Sales of gas amounted to 1,235 million cubic meters (-11.3% compared to the same period of 2019). The drop in sales is due both to unfavourable temperature compared to the previous year and, in particular for large and small industrial customers, to the slowdown in all economic activities resulting from the measures adopted to limit the spread of COVID-19.

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Result sector by sector

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However, there was an increase in the number of customers in the free mass market, in both the electricity and gas sectors (76 thousand more than at the end of 2019).

Economic data

<i>millions of euro</i>	01 01 2020 06 30 2020	01 01 2019 06 30 2019	CHANGE	% 2020/2019
Revenues	1,262	1,423	(161)	(11.3%)
Gross Operating Margin - EBITDA	113	116	(3)	(2.6%)
% of Revenues	9.0%	8.2%		
Depreciation, amortizations, provisions and write-downs	(28)	(23)	(5)	21.7%
Net Operating Income - EBIT	85	93	(8)	(8.6%)
% of Revenues	6.7%	6.5%		
Investments	19	11	8	72.7%
FTE	880	860	20	2.3%
Labour costs	28	28	-	0.0%

Revenues came to 1,262 million euro (1,423 million euro at June 30, 2019), down 11.3% following the decline in the unitary prices of gas and of energy electricity recorded during the first half of 2020 as compared with the same period of the previous year and the lesser quantities of gas sold, as well as lesser revenues linked to the sale/management of energy efficiency certificates (TEE).

The Gross operating margin of the Market Business Unit equalled 113 million euro (116 million euro for the first half of previous year).

Net of non-recurring items (substantially nil in 2020 and +3 million euro in 2019), the Ordinary EBITDA of the BU is in line with the same period of the previous year.

The excellent performance seen in the energy retail segment (+7 million euro) was neutralized by the lesser margins of the public lighting sector (-1 million euro) and the decline of the energy solutions sector (-6 million euro).

The growth in the energy retail segment is mainly due to an increase in the number of customers on the free electricity and gas market and to higher sales by large customers in the electricity market, the updating of the QVD, a component of the tariff applied to customers of the protection service to cover the costs of retail gas sales (Resolution 577/2019/R/gas), as well as a reduction in operating costs (indirect channel commissions, marketing and external communication expenses in support the acquisition of new customers, slowed down following the spread of COVID-19).

These positive effects more than offset the impact deriving from the reduction in gas sales.

The energy solutions sector has recorded a reduction in margins due to the lesser margins due to lesser income from the sale and management of white certificates of the companies operating in the sector, linked partly to the different timing (postponement from May to November) of procurement by distributors obliged to cancel the energy efficiency certificates (TEE).

The lesser margins of the public lighting segment, determined by the different timing of the issue of white certificates with respect to last year (issue envisaged for the second half of 2020 with respect to that carried out in the first half of 2019) and the postponement of the deadline for distributors to cancel the obligation, was partly offset by the greater margins for maintenance work and the management of new municipalities.

Depreciation, amortization, provisions and write-downs totalled 28 million euro (23 million euro at June 30, 2019). The change is mainly related to higher provisions for bad debts.

As a result of the above changes, net operating income amounted to 85 million euro (93 million euro in the first half of the previous year).

Capex of the period of the Business Unit amounted to around 19 million euro. More specifically, approximately 10 million euro were for the energy retail segment, mainly for evolutive maintenance and the development of the hardware and software platforms; approximately 4 million euro went to new projects to develop the public lighting segment and 5 million euro to improve energy efficiency in the New Energy Solutions segment.

In the first half of 2020, the FTE of the Market Business Unit amounted to 880 units, an increase of 20 FTE compared to the same period of the previous year. The increase is due to greater hiring to strengthen certain areas of activity, in line with the development objectives of the Market Business Unit.

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Waste Business Unit

The following is a summary of the main quantitative and economic data relating to the Waste Business Unit.

Quantitative data

	06 30 2020	06 30 2019	CHANGE	% 2020/2019
Waste collected (Kton)	801	852	(51)	(6.0%)
Residents served (#/1000)	3,669	3,586	83	2.3%
Waste disposed of (Kton)	1,609	1,675	(66)	(3.9%)
Electricity sold (GWh)	955	877	78	8.9%
Heat sold (GWh ^t) *	840	857	(17)	(2.0%)

(*) Quantities at the plant entrance.

In the first half of 2020, the quantity of waste collected, equal to 801 thousand tonnes, decreased by 6% compared to the same period of the previous year following the block of production activities decided on a national basis to limit the spread of COVID-19.

Waste disposed of decreased by 3.9%, partly due to the cessation of economic activities: net of higher quantities disposed of in waste-to-energy plants and the contribution of newly acquired plants for recent M&A operations (the treatment lines of Electrometal, a company active in the treatment and recovery of waste from different industrial processes acquired at the end of 2019 and the biomass powered generation plant Agritre acquired in February 2020) and recently started up (Muggiano plastic recovery plant started up in the second half of 2019), during the period under review, there were lower contributions to treatment plants and landfills, including the Grottaglie landfill operating in January 2019.

The quantities of electricity sold increased by 8.9% due to lower maintenance shutdowns of waste-to-energy plants, while the quantities of heat sold were down 2% due to lower quantities required by the district heating sector.

Economic data

<i>millions of euro</i>	01 01 2020 06 30 2020	01 01 2019 06 30 2019	CHANGE	% 2020/2019
Revenues	535	522	13	2.5%
Gross Operating Margin - EBITDA	144	135	9	6.7%
% of Revenues	26.9%	25.9%		
Depreciation, amortizations, provisions and write-downs	(53)	(56)	3	(5.4%)
Net Operating Income - EBIT	91	79	12	15.2%
% of Revenues	17.0%	15.1%		
Investments	55	46	9	19.6%
FTE	5,896	5,895	1	0.0%
Labour costs	159	159	-	0.0%

During the first half of 2020, the Waste Business Unit recorded revenues of 535 million euro (522 million euro at June 30, 2019).

The EBITDA of the Waste Business Unit equalled 144 million euro (135 million euro at June 30, 2019).

Net of non-recurring items (+1 million in 2020; substantively null in 2019), the Business Unit's Ordinary EBITDA came to 143 million euro, up 8 million euro.

The Collection segment made a good contribution to the half-year result (+3 million euro) for the lesser payroll costs and the limitation of spending on consumption and maintenance of vehicles, following the slowdown of activities due to the containment of COVID-19.

The urban and industrial treatment plant segments recorded a growth in margins totalling 5 million euro, determined by the greater quantities of electricity produced, the positive trend in transfer prices (in particular of waste similar to urban waste), the increase in the selling prices of paper during the period under review and the contribution of newly acquired (Agritre and Electrometal) and recently activated plants (the Muggiano plastic recovery plant), as well as the limitation of operating costs.

These positive effects more than offset the reduction in margins linked to the lower prices of sale of the electricity produced by waste-to-energy plants, the reduction in the quantities disposed of, and higher disposal costs, particularly slag.

Depreciation, amortization, provisions and write-downs equalled 53 million euro (56 million euro at June 30, 2019).

As a result of these changes, Net Operating Income totalled 91 million euro (79 million euro at June 30, 2019).

Capex in the first half of 2020 totalled 55 million euro and were mainly related to maintenance and development works on waste-to-energy plants (37 million euro), processing plants and landfills (9 million euro), the purchase of vehicles, containers, operating systems and the restructuring of corporate buildings in the collection segment (9 million euro).

In the first half of 2020, the FTE of the Waste Business Unit amounted to 5,896 units (5,895 FTE in the first half of 2019).

The change is the result of both the award of new tenders, and the implementation of important programmes to increase efficiency in the collection sector on the one hand, and to upgrade some waste treatment facilities on the other.

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Result sector by sector

Result sector by sector

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Networks and District Heating Business Unit

The following is a summary of the main quantitative and economic data relating to the Networks and District Heating Business Unit.

Quantitative data - Networks

	06 30 2020	06 30 2019	CHANGE	% 2020/2019
Electricity distributed (GWh)	5,061	5,833	(772)	(13.2%)
Gas distributed (Mcm)	1,618	1,736	(118)	(6.8%)
Gas transported (Mcm)	207	207	-	0.0%
Water distributed (Mcm)	36	38	(2)	(5.3%)
RAB Electricity (M€) ⁽¹⁾	667	649	18	2.8%
RAB Gas (M€) ⁽²⁾	1,431	1,423	8	0.6%

(*) Provisional figures, underlying the calculation of allowed revenues for the period.

The quantities distributed by the Networks and District Heating Business Unit recorded significant reductions during the period under review compared to the first half of 2019, mainly due to the slowdown in economic activity resulting from the measures adopted to combat the health emergency.

Specifically, electricity distributed amounted to 5,061 GWh, down 13.2%, and the quantity of gas distributed amounted to 1,618 cubic meters, down 6.8%. Lastly, water distributed amounted to 36 cubic meters, down 2 million cubic meters compared to the quantities distributed in the same period of the previous year.

Quantitative data - Heat

Gwh ^t	06 30 2020	06 30 2019	CHANGE	% 2020/2019
SOURCES				
Plants in:	763	847	(84)	(9.9%)
- Lamarmora	245	272	(27)	(9.9%)
- Famagosta	37	46	(9)	(19.6%)
- Tecnocity	32	33	(1)	(3.0%)
- Other plants	449	496	(47)	(9.5%)
Purchases from:	1,121	1,120	1	0.1%
- Third parties	268	252	16	6.3%
- Other Business Units	853	868	(15)	(1.7%)
TOTAL SOURCES	1,884	1,967	(83)	(4.2%)
USES				
Sales to end customers	1,568	1,641	(73)	(4.4%)
Distribution losses	316	326	(10)	(3.1%)
TOTAL USES	1,884	1,967	(83)	(4.2%)
Electricity from cogeneration	183	195	(12)	(6.2%)

Note:

- The figures only refer to district heating. Sales relating to heat management are not included.
- Purchases include the quantities of heat purchased from the Waste Business Unit.

Sales of heat by the Networks and District Heating Business Unit in the first half of 2020 amounted to 1,568 GWh^t, down 4.4% compared to the volumes sold in the same period of the previous year of 4.4%. The reduction recorded despite the acquisition of new customers is due to the milder average temperatures in the current year and the slowdown in business as a result of anti-COVID measures.

Economic data

millions of euro	01 01 2020 06 30 2020	01 01 2019 06 30 2019	CHANGE	% 2020/2019
Revenues	523	590	(67)	(11.4%)
Gross Operating Margin - EBITDA	220	227	(7)	(3.1%)
% of Revenues	42.1%	38.5%		
Depreciation, amortizations, provisions and write-downs	(96)	(83)	(13)	15.7%
Net Operating Income - EBIT	124	144	(20)	(13.9%)
% of Revenues	23.7%	24.4%		
Investments	145	149	(4)	(2.7%)
FTE	2,788	2,784	4	0.1%
Labour costs	54	58	(4)	(6.9%)

The Networks and District Heating business unit's revenues amounted to 523 million euro during the first half (590 million euro as at June 30, 2019). The change is mainly due to the revenues relating to the tariff contributions recognised to distributors to cancel out the energy savings obligations (TEE), following the postponement from May to November of the deadline envisaged, and lesser revenues relating to district heating.

EBITDA of the Networks and District Heating business unit in the first half of 2020 amounted to 220 million euro (227 million euro as at June 30, 2019).

The reduction in margins is above all due to the district heating sector, both to the reduction in volumes following the high temperatures and the blockage of production activities, and to lower unitary margins for the highly penalizing energy scenario.

The results of the Business Unit were also adversely affected by the decrease in eligible revenues from both gas and electricity distribution and the decrease in water sector volumes.

Depreciation, amortization, provisions and write-downs equalled 96 million euro (83 million euro at June 30, 2019). The change is partly due to higher amortization for investments made in previous months and partly to higher releases of the bad debts provision for the first half of 2019.

As a result of the above changes, Net Operating Income amounted to 124 million euro (144 million euro at June 30, 2019).

Capex for the reporting period amounted to 145 million euro and regarded:

- in the electricity distribution segment, development and maintenance work on plants and in particular the connection of new users, maintenance work on secondary cabins, the extension and refurbishment of the medium and low voltage network, the maintenance and upgrading of primary plants and investments in the launch of the 2G smart meter project (51 million euro);
- in the gas distribution subsector, development and maintenance work on plants relating to the connection of new users and the replacement of medium and low pressure piping and smart gas meters (43 million euro);
- in the integrated water cycle sector, maintenance and development work carried out on the water transportation and distribution network and the sewerage networks and purification plants (30 million euro);
- in the district heating and heat management segment, development and maintenance of plants and networks for a total of 18 million euro;
- in the company Smart City, development and maintenance interventions on TLC projects (3 million euro).

In the first half of 2020, FTE amounted to 2,788 units, substantially in line with the first half of 2019 (+4 FTE, equal to +0.1%). The invariance is the combined effect of more hirings for investment projects on the one hand, and postponements of planned hirings on the other.

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Result sector by sector

Result sector by sector

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International Business Unit

Economic data

millions of euro	01 01 2020 06 30 2020	01 01 2019 06 30 2019	CHANGE	% 2020/2019
Revenues	1	2	(1)	(50.0%)
Gross Operating Margin - EBITDA	(1)	(1)	-	0.0%
% of Revenues	(100.0%)	(50.0%)		
Depreciation, amortizations, provisions and write-downs	-	-	-	n.s.
Net Operating Income - EBIT	(1)	(1)	-	0.0%
% of Revenues	(100.0%)	(50.0%)		
Investments	-	-	-	n.s.
FTE	17	18	(1)	(5.6%)
Labour costs	1	1	-	0.0%

International Business Unit revenues at June 30, 2020 amounted to 1 million euro (2 million euro at June 30, 2019) and related to the construction of high-tech waste treatment plants.

The Gross Operating Margin and Net Operating Income were negative for 1 million euro, in line with the corresponding period of the previous year.

In the first half of 2020, FTE amounted to 17 units (18 FTE in the first half of 2019).

Corporate

Economic data

millions of euro	01 01 2020 06 30 2020	01 01 2019 06 30 2019	CHANGE	% 2020/2019
Revenues	124	119	5	4.2%
Gross Operating Margin - EBITDA	(15)	(12)	(3)	25.0%
% of Revenues	(12.1%)	(10.1%)		
Depreciation, amortizations, provisions and write-downs	(19)	(12)	(7)	58.3%
Net Operating Income - EBIT	(34)	(24)	(10)	41.7%
% of Revenues	(27.4%)	(20.2%)		
Investments	16	15	1	6.7%
FTE	1,418	1,398	20	1.4%
Labour costs	67	63	4	6.3%

The Gross Operating Margin, corresponding to the corporate structure costs not recharged to the various Group companies, amounted to -15 million euro in the first half of 2020 (-12 million euro in the corresponding period of the previous year). The change is mainly due to extraordinary items for the current year amounting to approximately -4 million euro.

The costs incurred in the first half of 2020 as a result of the health emergency to ensure the expected levels of safety and the disbursement of donations to finance measures to contain and manage the epidemiological emergency were neutralized by actions to contain other operating and labour costs.

Depreciation, amortization, provisions and write-downs equalled 19 million euro (12 million euro at June 30, 2019). The change is partly due to higher amortization and partly to the release of surplus risks provisions in the previous year.

After depreciation, amortization, provisions and write-downs there was a Net operating loss of 34 million euro (a net operating loss of 24 million euro at June 30, 2019).

Capex in the period, amounting to 16 million euro, mainly refer to work on the IT systems and buildings.

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Result sector by
sector

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Unit

Market Business
Unit

Waste Business
Unit

Networks and
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9

Risks and uncertainties

Risks and uncertainties

The A2A Group has a risk assessment and reporting process which is based on the Enterprise Risk Management method of the Committee of Sponsoring Organizations of the Treadway Commission (CoSO report) and best risk management practice and is in compliance with the Corporate Governance Code as updated by Consob in 2011, which states: “...Each issuer shall adopt an internal control and risk management system consisting of policies, procedures and organizational structures aimed at identifying, measuring, managing and monitoring the main risks....”.

The Group has also adopted a specific procedure that defines in detail the roles, responsibilities and methodologies for the Enterprise Risk Management (ERM) process.

This process requires a risk model to be set up that takes account of the Group’s characteristics, its multi-business vocation and the sector to which it belongs. This model is subject to periodic revision consistent with the evolution of the Group, and the context in which it operates. The methodology adopted is characterized by the regular identification of the risks to which the Group is exposed. In this context, an assessment process is carried out which, through the involvement of all its structures, allows the Group to identify the most important risks and establish the relative controls and mitigation plans. At this stage, the involvement of risk owners is essential as responsible for the identification, assessment and update of risk scenarios (specific events in which risk can materialize) related to activities of its competence. This phase is carried out with the support and coordination of the Group Risk Management organizational structure through operating methods that allow clearly identifying risks, the related causes and management methods.

The methodology adopted is modular and leverages on the fine-tuning of the experience gained and methods of analysis used: on the one hand, it aims to develop the risk assessment further with specific reference to the consolidation of the mitigation process and on the other to develop and integrate risk management activities in business processes. This evolution is carried out consistent with the gradual increase in the awareness of management and the business structures about risk management issues, achieved among other things through the use of specific training support provided by Group Risk Management.

The ERM process also supports the Group’s ISO9001, ISO14001 and ISO45001 certifications.

Set out below is a description of the main risks and uncertainties to which the Group is exposed.

The recent Coronavirus emergency, having possible repercussions on more than one of the types of risk, is dealt with in this opening section.

With reference to the recent rise of the Coronavirus emergency, it should be noted that crisis management measures have been put in place, as well as the identification of appropriate prospective mitigations linked to the risk of temporal extension of the emergency.

Since 2018, the A2A Group has had a Group crisis plan that identifies the organizational system, activities and procedures necessary to deal with the events that led to the declaration of crisis, with the aim of protecting human resources inside and outside the A2A Group, containing material and immaterial damage and guaranteeing the correct management of communication flows externally and the continuity of the services offered, quickly organizing normal operating conditions and safeguarding the company’s reputation. It should be noted that the A2A Group is managing the COVID-19 health emergency in full application of the provisions of the above procedure with the establishment and management of special crisis and continuity committees.

The main monitoring and mitigation actions identified are described below:

- definition of the minimum functional services to be monitored by the plant managers and the list of managers necessary to manage the plants and related back-up, also with reference to contractors;
- management of the documentation with the Prefectures to allow the transfer of personnel necessary to guarantee the minimum service;
- actions involving personnel aimed at avoiding assemblages and ensuring the safety of people (preparation of the procedural documents according to the provisions of health protocols, adoption of PPE, sanitization of premises, temperature measurement, etc.);

- preparation of a plan of equipment and PPE requirements for use in disposable mode;
- adoption of organizational and technological solutions to ensure that certain critical processes can be carried out remotely and methods for the execution of emergency intervention;
- provision of “filter villages” with container-rooms available for personnel to be quarantined.

With reference to economic effects see the specific section “COVID-19 virus health emergency and the effects of the pandemic on half-year and annual results and the value of the assets (IAS 36)”.

Legislative and regulatory risks

The A2A Group operates in highly regulated sectors whether they are managed under natural monopoly (such as infrastructure for the distribution and transport of electricity and gas, the integrated water cycle and district heating) or under free market regime (such as energy management, trading and sale of energy carriers and other services to customers).

The 2018 Budget Law, moreover, has extended the regulatory and control competences of the Authority for Electricity, Gas and Water System (AEEGSI, which changes its name to ARERA - Regulation Authority for Energy, Networks and the Environment) to include the separate and combined municipal and equivalent waste collection cycle.

Among the risk factors, therefore, the constant and not always predictable evolution of the legislative and regulatory framework of reference shall be considered.

For these risk factors, the Group adopts a legislative and regulatory risk monitoring and management policy in order to mitigate, to the extent possible, the effects through oversight on various levels, which primarily involves collaborative dialogue with the institutions (ARERA, Competition and Market Protection Authority, Authority for Communications Guarantees, Ministry of Economic Development) and with technical bodies of the sector (GSE Energy Services Operator, GME Energy Markets Operator, Terna) as well as active participation in category associations and working groups established at said entities.

Also the view to European regulations, following the work of Brussels through participation in the tables of Eurelectric and Cedec, allows seeing “in advance” the subject of transposition into Italian law (in some cases automatic as per regulations).

To address these issues, the top management set up a specific organization structure called Regulatory Affairs and Competition, broadening the mandate, strengthening the link with the business and exceeding the vision for which the relationship with the regulator shall be interpreted solely as compliance (or litigation).

Constant dialogue with Business Units is also envisaged, not only for the simulation of impacts on current activities but also for the evaluation of new initiatives.

The Institutional and Regulatory Committee was also set up, composed of the Chairman and CEO, as well as the Institutional Affairs Manager and the Regulatory Affairs and Competition Manager. This Committee meets periodically involving from time to time the Managers of the Business Units concerned, and the Managers of the staff structures in order to transfer to them the new regulations, agree on a corporate position on evolving standards and collect the requests of the business to convey them to the stakeholders of reference.

Regulatory Affairs and Competition implemented constantly updated monitoring and control tools (ex. Regulatory Review produced every six months or the Regulatory Agenda drawn up at the time of the Budget/Plan), in order to consider the potential impacts on the regulation on the company.

From January 2017 and January 2019, respectively, the organizational structure also monitors the regulatory risk for the LGH Group and the ACSM-AGAM Group in order to monitor and manage their impact in a coordinated manner.

The main topics involved in current changes in regulations and legislation, with major potential effects on the Group, are as follows:

- the rules governing large-scale diversion of hydroelectric concessions following Law no. 12/2019 which, in article 11-quater, provided for an overall reorganization of the subject, giving the Regions an increasingly important role (for the Lombardy Region, reference is made to the recent Regional Law no. 5 of April 8, 2020);

- the outcome of the appeals filed by some operators and a trade association for the annulment of the Ministerial Decree MISE of June 28, 2019 and all related acts of ARERA and Terna that implemented the capacity market regulations;
- tenders concerning the granting of concessions for the gas distribution service;
- the termination of the concessions of the SII of A2A Ciclo Idrico in the province of Brescia and their transfer for consideration to the Single Manager of the sector;
- the certification of energy savings within the White Certificates mechanism by the Energy Services Manager;
- the impact on the development of district heating due to the start of regulation of the sector by ARERA only for aspects relating to commercial and technical quality and not also for support for investments;
- the impacts on the waste sector of the ARERA measures on the treatment phase (in particular for the definition of access fees);
- the provisions of the 2017 Competition Act on the termination of price protection schemes for customers in the electricity and gas sectors, the date of which is now set for January 1, 2021 for small electricity businesses and for January 1, 2022 for domestic electricity customers, micro electricity business and gas customers.

Finally, it should be noted that, in view of the numerous interventions by the Antitrust Authority in the sectors of interest to the A2A Group (in terms of initiating investigations into abuse of a dominant position, agreements and investigations) the Board of Directors of A2A S.p.A. approved during the meeting of June 20, 2019, the adoption of the Antitrust Compliance Programme with the consequent appointment of a person responsible for its implementation and during the meeting of January 20, 2020, adoption of the Antitrust Code of Conduct. Finally, on June 23, 2020 an Antitrust Guideline was adopted, which regulates the rules of conduct that A2A Group employees must observe in order to avoid antitrust violations (document available on the company Intranet). Training sessions are being initiated.

For a more detailed discussion of these risks, reference should be made to the section “Regulatory developments and impacts on the Business Units of the A2A Group”.

Financial risks

Liquidity risks

Liquidity risk regards the Group’s timely ability to meet its payment commitments. To hedge this risk, the Group ensures the maintenance of adequate financial resources, as well as a liquidity buffer sufficient to meet unexpected commitments. At June 30, 2020, the Group contracted revolving committed credit lines for 740 million euro, unused. It also has unused long-term bank financing for a total of 400 million euro and cash and cash equivalents totalling 214 million euro. The management of liquidity risk is pursued by the Group also by means of a Bond Issue Program (Euro Medium Term Note Programme), currently being updated, sufficiently large and partially unused as to enable the Company to timely resort to the Capital market. At June 30, 2020, this program amounts to 4 billion euro, of which 1,549 million euro still available.

The Group’s ability to obtain loans in the banking or financial markets depends, among other things, on prevailing market conditions and the Group’s rating at the time of the need for financing. There is no guarantee that the Group will be able to access financing on equal or better terms than it currently has.

Risks associated with compliance with debt covenants

This risk exists if the loan agreements provide for the option by the lender, upon the occurrence of certain events, to request early repayment of the loan, thus entailing a potential liquidity risk for the Group. The section “Other Information/Covenants Compliance Risk” of the consolidated report illustrates in detail these risks related to the A2A Group. The same section also lists the loans that contain financial covenants. At June 30, 2020, there was no situation of non-compliance with the covenants of the A2A Group companies.

Interest rate risks

Interest rate risk is related to the uncertainty associated with the trend in interest rates, changes in which can result in, given a certain amount and composition of debt, an increase in net financial expenses. The volatility of financial expenses associated to the performance of interest rates is therefore monitored and mitigated through a policy of interest rate risk management aimed at identifying a balanced mix of fixed-rate and floating rate loans and the use of derivatives that limit the effects of fluctuations in interest rates.

To provide a better understanding of the risks of interest rate fluctuations to which the Group is subjected every six months at December 31 and June 30, a sensitivity analysis was conducted of net financial expenses and valuation items of derivative financial contracts as a result of interest rate fluctuations. The section "Other Information/Interest Rate Risk" of the consolidated report illustrates the effects on the change in the fair value of derivatives resulting from a change in the forward curve of interest rates of +/- 50 bps.

Risks associated with industrial and business activities

Macroeconomic context risks (GDP)

The Group's activities are sensitive to economic cycles and general economic conditions in the countries in which it operates. A slowing economy could determine, for example, a drop in consumption and/or of industrial production, having as a result a negative effect on the demand for electricity and of other carriers offered by the Group, thereby affecting the results and prospects and preventing the implementation of planned development strategies.

Risks related to commodity and energy prices

Given the features of the sectors in which it operates, the Group is exposed to energy scenario risk, namely the risk linked to changes in the price of energy raw materials (electricity, natural gas, coal and fuel oil), and the prices of CO₂ emissions allowances (EUA) as well as the associated exchange rate. Significant, unexpected and/or structural changes in commodity prices, especially in the medium term, may result in a reduction in the Group's operating margins and cash flows.

To mitigate these risks, the Group has approved an Energy Risk Policy that regulates the procedures by which commodity risk is monitored and managed, or the highest level of variability to which the result is exposed with reference to the trend of prices of energy commodities. Consistent with the provisions of the Policy, the commodity risk limits of the Group are defined and approved annually by the Board of Directors.

Market risk is mitigated by constantly monitoring the total net exposure of the Group's portfolio and addressing the main factors affecting the trend. Appropriate hedging strategies are defined, where necessary, designed to maintain this risk within the established limits, typically through hedging at 12 months and partially at 24 months.

The objective of stabilizing the cash flows generated by the asset portfolio and outstanding contracts is thus pursued through the management of physical contracts and derivative financial instruments, limiting to the extent possible, the volatility of the Group's economic and financial results following changes in commodity prices.

Social-environmental context risk

Possible actions to oppose the presence of the facilities promoted by some stakeholders, amplified through the use of social networks, due to a negative perception of certain activities (such as waste recovery and disposal) in the areas served (the phenomenon known as Not In My Back Yard) could hinder investments in the transition and/or conversion of facilities (e.g., thermoelectric and waste-to-energy facilities) and the growth planned by the Group in some business areas.

To mitigate this risk, the Group has set up organizational structures dedicated to monitoring institutional relations, with local communities and the territory, in order to establish and maintain collaborative dialogue with the various stakeholders. In this context, the Group participates in technical meetings with institutional partners at local level in order to build consensus on its initiatives.

Risks related to climate change

The Group's hydroelectric power generation, the consumption of electricity, gas and heat for winter heating and the electricity and drinking water distribution services provided by the Group may be affected by unfavourable changes in weather and climate parameters, such as scarcity and changes in rainfall patterns, particularly mild temperatures in winter and heat waves in summer. Changes in the availability of water resources can also lead to conflicts between various stakeholders as well as restrictions on the operation of hydroelectric plants. These factors can have an unfavourable impact on the Group's production, sales and reputation and, consequently, have negative economic and financial impacts.

Several actions are underway to mitigate this risk:

- to ensure optimum exploitation of available water resources, the Group has established organizational structure dedicated to the development of analyses and engineering models to support the programming, both medium and short-term, of hydroelectric plants;
- with reference to the reduction in demand for thermal energy by end users compared to as planned, the Group has set up company organizational structures dedicated to constantly updating demand forecasts in relation to expected temperature trends. In addition, hedging instruments of the weather derivatives type have been implemented and, in the long term, investments have been planned to reduce the costs of heat production through heat recovery;
- in order to guarantee, even in the long term, the supply of drinking water on an ongoing basis, the A2A Group monitors and maps leaks from aqueducts in order to identify the priority of investments and is studying the interconnection of aqueducts and the search for new sources of water supply.

In addition, extreme weather phenomena such as floods and landslides can have a negative impact on the Group's assets (such as canals, dams, plants) as well as on third-party infrastructures necessary for the continuity of the Group's activities (e.g. electricity transmission lines). These factors can result in direct damage to assets and/or indirect damage due to the interruption of production activities. To mitigate this risk, the Group has implemented emergency management plans and procedures. In addition, insurance policies have been taken out to cover direct and indirect damage caused by natural phenomena.

Finally, the Group is exposed to the risks associated with the expected transition to a low-carbon economy, which is expressed through regulatory amendments, possible conflicts for the use of resources, technological innovation, changes in consumption styles and stakeholder expectations. If these factors were not sufficiently taken into account in the definition of the Group's strategic choices, they could lead to economic and financial impacts due, for example, to the depreciation of industrial assets and loss of reputation.

To contribute to the decarbonization process, the Group is committed to reducing its CO₂ emissions - both direct and indirect. In fact, the Board of Directors approved a target for the Group's overall emissions to be achieved by 2030, which was recognized as a Science Based Target, i.e. in line with the level of decarbonization required to achieve the objectives of the Paris Agreement (limiting global warming to values well below 2 °C above pre-industrial levels and continuing efforts to limit warming to 1.5 °C). The main strategies adopted by the Group to achieve this goal include: ending the use of coal and fuel oil, increasing efficiency and reducing emissions from natural gas-fired thermoelectric power plants (combined-cycle), increasing energy production from renewable sources and using energy produced entirely from renewable sources for own consumption.

Operating risks due to the ownership and operation of electricity generation, cogeneration, waste treatment and recovery plants and distribution networks and plants

The Group manages operationally and technologically complex production sites and services (power plants, dams, waste recovery and disposal plants, cogeneration plants, distribution networks, waste collection and urban hygiene services, drinking water supply service, etc.). Accidental mechanical and/or electrical failures, structural failures, fires, terrorist attacks, labour unrest and pandemics could result in damage to assets and, in the worst cases, compromise the Group's production capacity, as well as the possibility of guaranteeing the continuity of services. All these factors can also lead to cost increases, damage to third parties, as well as penalties imposed by the competent authorities.

In order to mitigate these risks, the Group implements preventive management strategies aimed at reducing the probability of their occurrence and/or mitigating their impact. In addition, the Group has investments in place to ensure constant technological updating and adequate levels of plant maintenance, emergency management plans and procedures and a crisis management procedure that provides for the establishment of interdisciplinary management committees, organized at both Group and Business Unit level and coordinated among them. Finally, work is in progress to structure the Business Continuity Plan for the A2A Group.

The Group takes out insurance cover against any direct and indirect damage which may arise from other types of risk. As part of the insurance contract periodically (every 3 years), inspections are carried out on the plants and measures to improve the safety of assets and loss prevention are recommended/verified.

Information technology and operational technology risks

The A2A Group's activities are managed through IT (Information Technology) and OT (Operational Technology) systems and networks that support the main business processes, both operational and administrative and commercial. In particular, the Group uses IT systems to record, process and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory, legal and tax requirements. In addition, the Group collects and stores sensitive data, including intellectual property, business information and personal information of customers, service providers and employees, in Data Centers. The functioning of these information and technology systems and networks, as well as the processing and storage of this data in a secure manner, are fundamental to the Group's activities.

The increasing threats to the security of information technology and more sophisticated cybercrime represent a risk to the security of the Group's systems and networks and to the confidentiality, availability and integrity of its data. A security breach could expose the Group and its customers, service providers and employees to risks of misuse of information or systems, compromise of confidential information, loss of financial resources, data manipulation and destruction and operational disruption. All these factors could have a negative impact on the Group's reputation, competitive position, activities and results. Security breaches could also lead to disputes, fines and disqualifications, as well as operating and other costs.

To mitigate this risk, the Group has internal policies and procedures, tools for segregation of access to information, specific policies relating to the use of mobile devices, assessments of the vulnerability of systems and applications, specific software for malware detection, and training activities to increase employee awareness. The following activities are also being implemented: remediation plans for the main applications used, the structuring of an advanced Security Operations Center capable of increasing the effectiveness of threat monitoring, as well as specific interventions to mitigate emerging risks, also as a result of the substantial use of the COVID-19 emergency remote working method.

Any inadequacies, fragmentations, unavailability and/or malfunctioning of the applications could compromise the Group's ability to operate within the set times and methods. These factors could lead to loss of reputation with customers as well as economic and financial impacts. In order to mitigate this risk, activities are underway to renew existing platforms or to rationalize the applications in use, particularly for Customer Relationship Management platforms supporting commercial activities.

There is also the risk of possible interruptions to systems and infrastructures as a result of potential events (natural or otherwise) affecting them, with potentially even critical consequences on the Group's ability to maintain the continuity of its systems. To mitigate this risk, the Group has developed a process to ensure operating continuity, even in the event of unavailability of one of the two Data Processing Centers (CED - Centro Elaborazione Dati), of some systems considered more important for business. Furthermore, the transportation activities of the Milan Data Center were completed at the infrastructure of an external supplier, with higher levels of security in terms of service continuity.

The Group ICT organizational structure also works in coordination with the competent organizational structures to develop IT systems to support compliance in the main regulatory areas, such as the protection of personal data, as well as to support the correctness of commercial practices implemented on the various sales channels.

Health and safety risks

The occurrence of such risks may occur both in the event of accidents or serious or very serious injuries affecting employees and workers of contractors and/or third parties and in the event of occupational illnesses. These risks are related to the Group's activities such as, for example, those related to operational services in the territory and the performance of operating and maintenance processes at the plants.

The occurrence of such risks may lead to loss of reputation, as well as criminal, civil and/or administrative proceedings for violations of regulations, and/or sanctions, costs for compensation and/or increase in insurance premiums and, in the worst cases, interruption of plant operations, with consequent negative economic and financial impacts for the Group.

In order to mitigate these risks, the Group has set up organizational structures dedicated to the management of Health and Safety aspects at the parent company as well as at the Business Units, the individual companies and the main plants. The Group also maintains Health and Safety Management Systems certified in accordance with ISO 45001 for the parent company A2A and most of its Subsidiaries. In addition to specific compulsory training plans for each role and company assignment, Leadership in Health and Safety – LiHS training programs have been implemented and progressively extended to all Business Units, which envisage at all levels emotional involvement on the issue of security and the dissemination of security culture through leaders identified within the operating areas.

In relation to the COVID-19 emergency, given the current regulatory framework, this type of risk also includes the possibility of legal action brought by employees leading to alleged liability profiles of the employer and Group companies in the event of contact with the virus and contraction of the disease. In order to manage this risk, the Group is scrupulously adopting the prescriptions and protocols provided for by current regulations and guidelines issued by the competent bodies, as well as maximizing remote work.

Environmental risks

The emergence of such risks may occur as a result of accidents in production processes or as a result of the particular characteristics of the business carried out by the Group, which may lead to reactions by the public opinion about presumed repercussions on the environment and/or on the health of resident populations. These risks are related, for example, to the disposal of production residues, emissions from production processes, the management of waste collection, storage, treatment and disposal activities, water purification, the management of the emptying and maintenance of water reservoirs for electricity production, etc. All these factors can potentially lead to loss of reputation, criminal, civil and administrative proceedings, penalties, environmental reclamation and restoration costs and, in the worst cases, interruption of plant operations with consequent negative economic and financial impacts for the Group. It is also noted that any amendments to the existing legislation could entail costs and investments to ensure compliance with the new requirements as well as operational impacts on certain industrial activities.

In order to mitigate these risks, the Group, in addition to implementing technical and technological systems for the prevention and reduction of pollution at the various industrial sites in compliance with sector regulations and in accordance with the best available techniques, has set up organizational structures dedicated to the management of environmental aspects at the parent company as well as at the Business Units, individual companies and the main plants. The Group also keeps the

Environmental Management Systems certified according to the ISO 14001 standard active for the parent company A2A and for the main companies. For some sites, there are also registrations under the European EMAS Regulation. The A2A Group has taken out insurance cover against damage arising from both accidental and gradual pollution in order to cover any residual environmental risk, i.e. against events caused by a sudden and unpredictable fact, and against the environmental damage inherent in continuing operations. The Group is also active in monitoring the regulations in progress and is also present on the technical panels set up by the associations in order to highlight any critical issues related to regulatory developments.

9

Risks and uncertainties

Risks and uncertainties



The background is a photograph of a modern building's glass and stone facade, viewed from a low angle looking up. The entire image is overlaid with a semi-transparent blue filter. On the left side, there is a white geometric shape consisting of several overlapping triangles and polygons, creating a dynamic, abstract pattern.

10

Sustainability
responsible
management

Sustainability responsible management

Environmental protection, safeguarding of natural resources, respect for fundamental human rights, an economic model capable of integrating territorial development and protection of the earth's ecosystem have become - for several years now - the focus of the political agendas of the most important world leaders. 2015 was a further decisive year in this respect. In fact, on the occasion of the 70th General Assembly of the United Nations, the leaders of the member countries adopted a new global framework for sustainable development: the Sustainable Development Framework. Agenda 2030, consisting of 17 objectives (Sustainable Development Goals - SDGs), and 169 specific indicators for the period 2015-2030. The adoption of this agenda has had a historic significance, not only because - for the first time - it proposed a model of integrated development in all aspects (environmental, economic and social), but also because it commits all member countries (developed and developing), together with their companies and citizens, to take concrete actions aimed at guaranteeing a sustainable tomorrow for future generations.

A2A faced this challenge by redesigning its sustainability strategy in April 2016 precisely in light of the UN Agenda priorities, defining a Sustainability Policy through hinged on four cornerstones: circular economy, decarbonisation, smart solution and people innovation. From this document derives the Sustainability Plan, which contains concrete and measurable actions and objectives, and which is updated annually in an integrated manner with the Group's Business Plan. The 2020-2024 Sustainability Plan was approved on March 19, 2020.

On May 13, 2020, the fourth Group Integrated Report was presented to the A2A Shareholders' Meeting, which for the second year, is also the Non-Financial Disclosure pursuant to Legislative Decree 254/16. This document continues to be drawn up according to rigorous and internationally shared standards and methodologies, in particular the Integrated Reporting Framework (IR Framework) and the international standards of the Global Reporting Initiative (GRI). For the fourth consecutive year, the Sustainability Plan was monitored in the document, which showed that most of the indicators are making significant progress, giving reason for the work that the Group is carrying out.

Also thanks to this performance, in the first months of 2020, A2A had confirmation of the positive evaluation of its rating by Standard Ethics: EE (Strong) in the short term; and confirmation of the medium-term rating EE+(Very Strong). And it has been confirmed in the six ethical indices in which it is included (FTSE4Good Index, ECPI Indices, Ethibel Sustainability Index Excellence Europe, EURO STOXX Sustainability Index, Euronext Vigeo Index, Eurozone 120, Standard Ethics Italian Index).

These confirmations are due in particular to the A2A Group's new emissions policy, with which the decarbonisation targets have been made even more ambitious, aligning them with the Paris Climate Agreement of 2015. In this direction, A2A has foreseen, by 2030, a 46% reduction in direct greenhouse gas emissions (Scope 1) per kWh produced compared to 2017 (emission factor at 2030 equal to 230 gCO₂/kWh). The objective is based on the development of new renewable capacity of at least 1.6 GW by 2030, the optimization of gas-fired combined cycle plants and the decommissioning and conversion of conventional coal- and oil-fired power plants. The commitments also include a 100% reduction in Scope 2 emissions by 2024, and a 20% reduction in indirect Scope 3 emissions by 2030 linked to the purchase of fuels for its own plants and gas sales to end customers. This new target was submitted to the Science-Based Targets initiative (SBTi) - an initiative that stems from the collaboration between CDP (previously Carbon Disclosure Project), the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) - to verify the alignment of the decarbonisation targets of companies with the indications of the Paris Agreement (COP21). A2A was the first multi-utility in Italy to have obtained validation of the emission target by SBTi. In March 2020, the emission reduction targets were in fact approved by SBTi, as consistent with scientific climate evidence, and aligned with the reduction required to contain global warming at 2° compared to the pre-industrial era.

With regard to territorial sustainability, the Group's performance reporting is continuing. In fact, in the first half of 2020, the 2019 Sustainability Reports for Milan, Brescia and Bergamo were drawn up, which - due to the Covid 19 emergency - will be presented in live streaming remote events. Also this year, the documents - starting from the 11 Sustainable Development Goals of the UN 2030 Agenda, chosen by A2A - describe in detail the contribution the Group is making to the sustainable development of each territory. For each of these Reports, a summary paper version and a dedicated in-depth section on the web has been created within the Sustainability section of the A2A corporate website.

As part of the stakeholder listening programme, called forumAscolto, the winning projects of the call to action creiAMO PIEMONTE were completed. Both winners, Mercato Circolare and Musicanti di Brema, were guaranteed, in addition to financial support of 25 thousand euro each, a light incubation path for the development of their project idea, in collaboration with a local incubator.

Regarding the Banco dell'Energia – the social responsibility project that emerged from the Brescia forum – promoted by A2A with the AEM Foundation and the ASM Foundation, the 16 projects that have been awarded the resources made available by the Doniamo Energia2 call are continuing to support families in situations of economic and social vulnerability throughout Lombardy.

Regarding educational activities, June 2020 marked the conclusion of the Missione Terra Global Goal Protocol merit competition for the 2019-20 school year, dedicated to Italian secondary and high schools and focused on objective no. 4 - Quality education, of Agenda 2030. The initiative involved 72 schools that participated with 185 projects. Even during the Covid emergency, teachers and their students reflected remotely on this heartfelt issue, especially by refocusing their papers on the experience of DAD - Remote Learning.

Also in response to the Covid emergency, new video content and webinars have been published on the innovative digital platform edutv.a2a.eu to continue to dialogue with teachers registered in the scuole.a2a.eu portal and support them during remote learning. Finally, a social campaign dedicated to Generation Z (14-18 years old) was created in collaboration with ScuolaZoo: thanks to the #Sallo format and short videos on energy, water, waste and waste issues, important messages on Agenda 2030 and specific focus on environmental sustainability were conveyed to students and received considerable interest (KPI: 4.333,788 reach 1,192,093 views).

Finally, in 2020 the sustainability section of the website www.a2a.eu was updated to simplify browsing for users, stakeholders, students or just people curious about the three aspects of our sustainability: through the 11 SDGs that inspire our Policy or starting from the 4 PILLARS that characterise it or discovering the MATERIAL THEMES, which describe in concrete terms what A2A does for the communities in which it operates. These three browsing keys are linked together and each action of the Plan is measurable and represented by graphs that allow monitoring the progress of the Sustainability Policy year by year.



11

Certification of
the condensed
half-yearly financial
statements pursuant
to art. 154-bis,
paragraph 5 of
Legislative Decree
no. 58/98

Certification of the condensed half-yearly financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree no. 58/98

1. The undersigned Renato Mazzoncini, as Chief Executive Officer of A2A S.p.A., and Andrea Crenna, as Manager in charge of preparing the corporate accounting documents of A2A S.p.A., certify, also taking into account the contents of article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of administrative and accounting procedures for the preparation of the condensed half-year financial statements in the first half-year of 2020.

2. It is also certified that:

2.1 The condensed half-year financial statements:

- a) are prepared in accordance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002;
- b) correspond to the information contained in the accounting ledgers and records;
- c) provide a true and fair representation of the equity, economic and financial situation of the issuer and the whole of the companies included in the scope of consolidation.

2.2 The half-year report on operations includes a reliable analysis of the references to the significant events occurred in the first six months of the year and their incidence on the condensed half-year financial statements, as well as a description of the main risks and uncertainties for the remaining six months of the year. The half-year report on operations also includes a reliable analysis of the information regarding transactions with related parties.

Milan, July 30, 2020

Renato Mazzoncini
(Chief Executive Officer)

Andrea Crenna
(Manager in charge of
preparing the corporate
accounting documents)

Independent Auditor's Report



A2A S.p.A.

Review report on the half-yearly consolidated financial report

(Translation from the original Italian text)



EY S.p.A.
Via Meravigli, 12
20123 Milano

Tel: +39 02 722121
Fax: +39 02 722122037
ey.com

Review report on the half-yearly consolidated financial report (Translation from the original Italian text)

To the Shareholders of
A2A S.p.A.

Introduction

We have reviewed the half-yearly consolidated financial report, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the statement of changes in group equity and the related notes of A2A S.p.A. and its subsidiaries (the "A2A Group") as of 30 June 2020. The Directors of A2A S.p.A. are responsible for the preparation of the half-yearly consolidated financial report in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on this half-yearly consolidated financial report based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of 31 July 1997. A review of half-yearly consolidated financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the half-yearly consolidated financial report.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the half-yearly consolidated financial report of A2A Group as of 30 June 2020 is not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 3 August 2020

EY S.p.A.
Signed by: Paolo Zocchi, Statutory Auditor

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

EY S.p.A.
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