A2A S.p.A.
via Lamarmora 230, 25100 Brescia,
share capital Euro 1,629,110,744.04, fully paid-up
tax code and registration number with the Brescia Register of Companies 11957540153

****

EXPLANATORY REPORT OF THE BOARD OF DIRECTORS ON THE MERGER PROJECT BY INCORPORATION OF Linea Group Holding S.p.A. INTO A2A S.P.A.

(pursuant to art. 2501-quinquies of the Civil Code and Art. 70 paragraph 2 of the Issuers' Regulations)

INTRODUCTION

This report was prepared by the Board of Directors of A2A S.p.A.. (a company listed on regulated markets), pursuant to art. 2501-quinquies of the Italian Civil Code and art. 70, paragraph 2, of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions, (hereinafter the "**Issuers' Regulation"**), and its purpose is to illustrate and justify, from a legal and economic point of view, the planned merger by incorporation (hereinafter also the **"Merger"**) of the company Linea Group Holding S.p.A. (hereinafter also referred to as the "**Merged Company**"or "**LGH**") into A2A S.p.A. (hereinafter, also the "**Merging Company**").

1. Companies participating in the Merger

Incorporating Company: "A2A S.p.A.", with registered office at Via Lamarmora 230, Brescia, and headquarters and administrative offices at Corso di Porta Vittoria 4, Milan, fully paid-in share capital of Euro 1,629,110,744.04, registered in the Brescia Register of Companies, tax code and registration number 11957540153, R.E.A. no. 493995.

Incorporated Company**:** "**Linea Group Holding S.p.A**.", a subsidiary of A2A S.p.A. (51.00%), Azienda Energetica Municipale S.p.A. (15.15%), Cogeme S.p.A. (15.15%), A.S.M. Pavia S.p.A. (7.79%), Astem S.p.A. (6.48%), Società Cremasca Servizi S.r.l. (4.43%), with registered office at Viale Trento e Trieste 38, Cremona, share capital Euro 189.494.116,00 fully paid up, registered in the Register of Companies of Cremona, tax code and registration number 01389070192, R.E.A. no 167186, a company subject to management and coordination by the Merging Company.

2. Type of merger

The proposed Merger will be carried out by means of a direct merger by incorporation, with the Merged Company being 51% owned by the Merging Company. From a statutory point of view, the transaction will be carried out in accordance with Articles 2501 et seq. of the Italian Civil Code and in accordance with the terms and conditions contained in the merger plan.

3. Reasons for the operation

The merger by incorporation of "LGH" is in line with the streamlining process of the companies of the A2A Group and completes the path of evolution of the partnership between A2A and the Minority Partners of LGH, as outlined and described in the partnership agreements signed on 4 March 2016 and subsequent additions. The merger is the culmination of a process of integration between the two companies that has evolved over the years. In this regard, mention should be made of the merger of Linea Più Spa (a company that sells electricity and gas to LGH's end customers) into A2A Energia Spa, the merger of LineaCom (a company that supplies connectivity services to LGH) into A2A Smart City and A2A Ambiente's majority stake in Lomellina Energia (LGH's waste treatment company). In addition, the process of integrating information and management systems is underway.

The merger, in addition to rationalising the group companies, will enable economic synergies to be generated over time thanks to the integrated management of processes and systems.

4. Legal aspects

Criteria used to determine the exchange ratio

For the purposes of determining the exchange ratio, the economic value of the companies involved in the transaction was estimated on the basis of the financial analysis and valuation methods used in professional practice.
The peculiarities and differences in terms of the risk/return profile of the activities carried out by the companies involved in the transaction have made it necessary to use a "sum of the parts" method, in order to quantify the valuation of the two companies in their entirety; this method consists in valuing independently the different business units of each of the two companies. In order to make the valuation analysis methodologically consistent, the same valuation approaches were applied to the same activities carried out by the two companies.
For valuation purposes, the business areas that constitute the operating activities of the companies were considered, specifically: the generation business, the environment business, the networks and heat business, the market business and the corporate business. Each of the business areas in which the companies operate was valued using a financial method developed on a stand-alone basis in accordance with their respective business plans.
For the purposes of determining the exchange ratio: (ii) the exchange ratio has been algebraically adjusted taking into account the dividends/distributions paid by the two companies to their respective shareholders, and is therefore to be understood as ex-dividend.
It should also be noted that the method of servicing the exchange consists of assigning A2A treasury shares, of which 62,433,474 have been purchased by A2A through a share buyback plan launched in connection with the Merger (the "Buyback Plan"), at an average price of €1.74 per share.

Evaluation criteria adopted

The application of the "sum of the parts" method required the adoption of a variety of evaluation methodologies and practices.
The Discounted Cash Flow ("DCF") method was used as the main method, given its flexibility and ability to capture and evaluate the cash generation and profitability of each business unit over the time horizon considered.

Instead, the market and transaction multiples methods were used as secondary methodologies. It should be noted that the reliability of these methodologies is negatively affected by the following factors: (i) these methods are based on projections prepared by research analysts (market multiples) or intrinsic to the valuations observed within the scope of the transactions considered (transaction multiples), the nature of which could however differ substantially from the business plans on which the valuation analyses were based, since the latter are built over a particularly long time horizon and feature significant growth in the business units concerned; elements that, on the contrary, the DCF valuation succeeds in factoring in; (ii) the absence of listed companies that are perfectly comparable to the business units of A2A and LGH, both in terms of business and size.

Summary of findings

Consistent with the valuation methodologies set out above, on the basis of a total distribution of dividends by LGH in 2021 of €22.31 million, a dividend distributed by A2A of €248.7 million and an outlay by A2A for the purchase of treasury shares of €108.75 million, the values identified are:

	Values in Euro
A2A	5,216,619,171
LGH (Share of minority partners)	147,513,653

On the basis of these valuations, the exchange ratio was set at 0.928 A2A shares for 1 LGH share.

It should also be noted that:

the proposed merger does not fall within the scope of Article 117-bis of Legislative Decree no. 58 of 24 February 1998 (known as the TUF), since the amount of the assets of the Merging Company, other than cash and cash equivalents and financial assets not constituting fixed assets, are not only not significantly lower than the assets of the Merged Company, but are actually significantly higher;

- the information document pursuant to art. 70, paragraph 6 of the Issuers' Regulations was not prepared, since none of the materiality parameters indicated in Annex 3B of the Issuers' Regulations was exceeded;

- the transaction in question does not fall under the circumstances described in Article 2501-bis of the Italian Civil Code. (so-called *merger leveraged buy-out*);

- this is an intragroup transaction for which there is no need for authorisation from the Antitrust Authority.

5. Reference Balance Sheets

Pursuant to Article 2501-quater, the Merger resolution will be adopted on the basis of the balance sheets of the companies involved prepared by their respective governing bodies with reference to the date of 31 December 2020.

6. Effects of the Merger

As a result of the Merger, the Merging Company will acquire all the assets of the Company undergoing Merger. The transaction will not have any effect on the current ownership structure of the Merging Company, since the merger will not involve A2A issuing new shares.

In connection with the Merger, the Articles of Association of the Merging Company will not be amended.

The effects of the Merger with regard to third parties, pursuant to Article 2504-bis of the Italian Civil Code, will commence on the day on which the last of the registrations of the Merger deed required pursuant to Article 2504-bis of the Italian Civil Code is executed. The deed of merger may provide for a later date.

Transactions carried out by the Merged Company will be recognised in the financial statements of the Merging Company from the first day of the financial year in which the merger becomes effective and the tax effects of the Merger will take effect from that same date.

All the companies involved in the merger close their financial years on 31 December.

The Merger also:

- does not provide for any treatment reserved to particular categories of shareholders or to holders of securities other than shares, nor any special advantage for persons entrusted with the administration of participating companies;
- does not envisage any effect on shareholders' agreements concerning shares of the Merging Company;
- does not involve the exclusion of the Merging Company from the listing and, therefore, the hypothesis of withdrawal provided for by article 2437-quinquies of the Italian Civil Code does not apply.

7. Tax implications

In addition to a number of other tax effects that will have an operational effect on tax payment and procedural obligations and formalities, the main tax effects of the transaction are described below:

- the merger of companies is regulated, for tax purposes, by Article 172 of Presidential Decree 2 December 1986 no. 917, as amended by Legislative Decree no. 344 of 2 December 2003;
- current tax legislation is based on the principle of the general neutrality of the merger transaction, which does not constitute the realisation or distribution of capital gains or losses, either by the companies involved in the merger or by their shareholders;
- as a result of the Merger, the Merging Company will take over all the tax obligations and rights of the Merged Company, with effect from the effective date of the merger. Accordingly, the payment obligations, including those relating to tax advances and withholding taxes, of the Merging Company which is dissolved as a result of the Merger, will be fulfilled by the same company until the effective date; after that date, the aforementioned obligations will be deemed to have been transferred to all effects to the Merging Company;
- for indirect tax purposes, the merger constitutes an operation excluded from the scope of application of VAT, pursuant to Article 2, paragraph 3, letter f), of Presidential Decree no. 633/1972. According to this rule, in fact, transfers

of goods as a result of mergers of companies are not considered relevant supplies for VAT purposes.

Milan, 25 June 2021

The CEO of A2A S.p.A.

____