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REPORT ON OPERATIONS

CORPORATE BODIES

BOARD OF DIRECTORS*

Barbara Marinali	Chairperson
Fabrizio Palermo**	Chief Executive Officer
Antonella Rosa Bianchessi	Director
Alessandro Caltagirone	Director
Massimiliano Capece Minutolo Del Sasso	Director
Antonino Cusimano	Director
Francesca Menabuoni***	Director
Elisabetta Maggini	Director
Luisa Melara	Director
Angelo Piazza	Director
Alessandro Picardi	Director
Vincenza Patrizia Rutigliano	Director
Nathalie Tocci	Director

BOARD OF STATUTORY AUDITORS

Maurizio Lauri	Chairperson
Claudia Capuano	Standing Auditor
Leonardo Quagliata	Standing Auditor
Rosina Cichello	Alternate Auditor
Vito Di Battista	Alternate Auditor

EXECUTIVE RESPONSIBLE FOR FINANCIAL REPORTING

Sabrina Di Bartolomeo****

AUDITING FIRM

PricewaterhouseCoopers SpA

* appointed by the Shareholders' Meeting on 18 April 2023
** appointed by the Board of Directors on 3 May 2023
*** appointed by the Board of Directors on 23 June 2023
**** appointed by the Board of Directors on 10 November 2023

ACEA ORGANISATIONAL MODEL

Acea is one of the main Italian industrial groups and has been listed on the stock exchange since 1999. Acea has adopted an organisational structure and operating model based on strategic guidelines, founded on growth in the water market through infrastructure development, geographic expansion, strengthening technology and protecting water resources; the resilience of the electricity network and quality of service in the city of Rome; developing new renewable capacity to help face the energy transition; a push towards the circular economy with geographic expansion, also in synergy with other businesses. The macrosectors in which Acea works are broken down into the industrial segments listed below.

WATER

The Acea Group is the top Italian operator in the water sector serving 10 million people. The Group manages the integrated water service in Rome and Frosinone and in the respective provinces, as well as in other parts of Lazio, in Tuscany, Umbria, Campania and Molise. The Group is also in Abruzzo, Molise and Campania, as it has entered the methane distribution market in the Municipality of Pescara, the Province of L'Aquila, the Provinces of Campobasso and Isernia and the Province of Salerno. Finally, the area also includes ASM Terni, which works in the sectors of waste collection, street sweeping and electricity distribution.
The area also includes the companies that manage water activities in Latin America and its objective is to make the most of development opportunities in other businesses related to those already held in Italy. It is present in Honduras, Dominican Republic and Peru, serving a population of approximately 10 million inhabitants. The activities are carried out in partnership with local and international partners, including through staff training and the transfer of know-how to local entrepreneurs.

NETWORKS & SMART CITIES

The Acea Group is a leading national operator with around 9 TWh of electricity distributed in Rome. The Group also manages the public and artistic lighting of the capital for a total of more than 206 lights. The Acea Group is committed to energy efficiency projects and the development of new technologies, such as smart grids and electric mobility, through particularly innovative pilot projects.

ENVIRONMENT

The Acea Group is one of the leading national players with around 1.8 million tonnes of waste processed each year, including those handled. Among the various treatment and disposal plants operated in eight regions there is the main waste-to-energy plant and the largest anaerobic digestion and composting plant in the Lazio Region and the largest mechanical/biological treatment plant in the Abruzzo Region. The Group pays particular attention to the development of investments in the waste-to-energy and waste-recycling business, which is considered to have high potential, in line with the strategic objective of environmental and energy enhancement of waste, as well as its recovery and recycling in the plastics, paper and metals sectors and in the production of high-quality compost.

COMMERCIAL

The Acea Group is one of the leading Italian players in the sale of electricity and offers innovative and flexible solutions for the supply of electricity and natural gas with the objective of consolidating its positioning as a dual fuel operator. It operates on the market segments of medium-sized enterprises and households with the objective of improving the quality of the services offered with particular regard to web and social channels. It supervises the Group's energy management policies. The Segment also has the objective of searching for innovations and start–ups to launch testing and development projects in the technological field.

PRODUCTION

The Acea Group is one of the main national operators in the field of generation from renewable sources and is involved in energy efficiency projects and energy solutions in the business segment, particularly focused on finding innovative approaches to managing production assets and implementing new production capacity that reduces the Group's carbon footprint.

ENGINEERING & INFRASTRUCTURE PROJECTS

The Acea Group has developed know-how at the forefront in the design, construction and management of integrated water systems: from the source to the pipelines, from distribution to the sewer network, and treatment. It develops applied research projects aimed at technological innovation in the water, environmental and energy sectors. Laboratory and engineering consultancy services are of particular importance. The Acea Group is also engaged in the design and creation of plants for the environment and for the treatment of water and waste.

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

DEFINITION OF ALTERNATIVE PERFORMANCE MEASURES

On 5 October 2015, ESMA (European Securities and Markets Authority) published its guidelines (ESMA/2015/1415) on criteria for the presentation of alternative performance measures which replace, as of 3 July 2016, the CESR/05-178b recommendations. These guidelines were transposed into our system with CONSOB Communication no. 0092543 dated 3 December 2015. In addition, on 4 March 2021 ESMA published the guidelines on the disclosure requirements deriving from the new Prospectus Regulation (Regulation EU 2017/1129 and Delegated Regulations EU 2019/980 and 2019/979), which update the previous CESR Recommendations (ESMA/2013/319, in the revised version of 20 March 2013). Starting from 5 May 2021, on the basis of CONSOB Call for Attention No. 5/21, the aforementioned ESMA Guidelines also replace the CESR Recommendation on debt. Therefore, under the new provisions, listed issuers will have to present, in the explanatory notes to their annual and semi-annual financial statements published from 5 May 2021 onwards, a new statement on debt to be drafted in accordance with the instructions in paragraphs 175 and following of the above ESMA Guidelines.

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

- for the Acea Group, the EBITDA is an operating performance indicator and from 1 January 2014 also includes the condensed result of equity investments in jointly-controlled entities for which the consolidation method changed when the international accounting standards IFRS 10 and IFRS 11 came into force. EBITDA is determined by adding Operating profit/loss (EBIT) to "Amortisation, depreciation, provisions and impairment", insofar as these are the main non-cash items;
- financial debt is represented and determined in accordance with what is indicated in the aforementioned ESMA guidelines and in particular in paragraph 127 of the recommendations contained in document no. 319 of 2013, implementing Regulation (EC) 809/2004. This indicator is determined as the sum of short-term borrowings ("Short-term loans", "Current part of long-term loans" and "Current financial liabilities") and long-term borrowings ("Long-term loans") and the related derivative instruments ("Non-current financial liabilities"), net of "Cash and cash equivalents" and "Current financial assets";
- the net financial position is an indicator of the Acea Group's financial structure determined in continuation with previous years and used, as from this document, exclusively for information presented in the business areas in order to provide clear segment information that can be easily reconciled with the financial debt (ESMA) referred to above. This indicator is obtained from the sum of Non-current borrowings and Financial liabilities net of non-current financial assets (financial receivables and securities other than equity investments), Current financial payables and other Current financial liabilities net of current financial assets and Cash and cash equivalents;
- net invested capital is the sum of "Current assets", "Non-current assets" and Assets and Liabilities held for sale, less "Current liabilities" and "Non-current liabilities", excluding items taken into account when calculating the net financial position;
- net working capital is the sum of Current receivables, Inventories, the net balance of other current assets and liabilities and Current payables, excluding the items considered in calculating the net financial position.

SUMMARY OF RESULTS

Income statement data

€ million	2023	2022	Change	% Change
Consolidated net revenue	**4,649.4**	**5,138.2**	**(488.9)**	(9.5%)
Consolidated operating costs	3,272.9	3,861.1	(588.2)	(15.2%)
Net income/(expense) from commodity risk management	0.0	0.0	0.0	n.s.
Profit/(loss) from non-financial equity investments	14.4	27.9	(13.5)	(48.4%)
EBITDA	**1,390.9**	**1,305.0**	**85.9**	**6.6%**
Operating profit/(loss)	**612.3**	**565.9**	**46.5**	**8.2%**
Net profit/(loss)	**327.4**	**311.2**	**16.3**	**5.2%**
Profit/(Loss) due to third parties	*33.5*	*31.4*	*2.1*	*6.7%*
Net profit/(loss) attributable to the Group	**293.9**	**279.7**	**14.2**	**5.1%**

Financial position data

€ million	31/12/2023	31/12/2022	Change	% Change
Net Invested Capital	7,669.8	7,194.9	474.9	6.6%
Net Financial Debt	(4,846.8)	(4,439.7)	(407.1)	9.2%
Consolidated Shareholders' Equity	**(2,823.1)**	**(2,755.2)**	**(67.8)**	**2.5%**

EBITDA

€ million	2023	2022	Change	% Change
Environment	84.4	101.6	(17.2)	(17.0%)
Commercial	129.3	90.0	39.3	43.7%
Water (Overseas)	35.7	33.0	2.7	8.3%
Water	743.9	669.0	75.0	11.2%
Networks & Smart Cities	375.4	352.2	23.3	6.6%
Production	53.9	89.8	(36.0)	(40.0%)
Engineering & Infrastructure Projects	9.9	13.2	(3.3)	(24.8%)
Corporate	(41.6)	(43.7)	2.1	(4.7%)
Total EBITDA	**1,390.9**	**1,305.0**	**85.9**	**6.6%**

Investments*

€ million	2023	2022	Change	% Change
Environment	38.9	46.2	(7.3)	(15.9%)
Commercial	50.2	49.6	0.6	1.2%
Water (Overseas)	5.7	5.8	(0.1)	(1.4%)
Water	682.4	611.0	71.4	11.7%
Networks & Smart Cities	299.6	268.8	30.8	11.5%
Production	41.1	30.3	10.8	35.7%
Engineering & Infrastructure Projects	4.7	5.8	(1.1)	(18.8%)
Corporate	20.1	32.7	(12.6)	(38.4%)
Total Investments	**1,142.7**	**1,050.1**	**92.6**	**8.8%**

* The value of investments is inclusive of financed investments amounting to € 149.8 million for 2023 and € 48.9 million for 2022.

SUMMARY OF RESULTS: ECONOMIC PERFORMANCE

Income statement data

€ million	2023	2022	Change	% Change
Revenue from sales and services	4,430.3	4,957.2	(526.9)	(10.6%)
Other revenue and income	219.1	181.1	38.1	21.0%
Costs of materials and overhead	2,938.4	3,556.1	(617.6)	(17.4%)
Staff costs	334.5	305.1	29.4	9.6%
Net Income/(Expense) from commodity risk management	0.0	0.0	0.0	n.s.
Profit / (loss) from non-financial equity investments	14.4	27.9	(13.5)	(48.4%)
EBITDA	**1,390.9**	**1,305.0**	**85.9**	**6.6%**
Amortisation, depreciation, provisions and impairment charges	778.5	739.2	39.4	5.3%
Operating profit/(loss)	**612.3**	**565.9**	**46.5**	**8.2%**
Financial operations	(136.5)	(85.7)	(50.8)	59.3%
Equity investments	(0.6)	17.8	(18.4)	(103.4%)
Profit/(loss) before tax	**475.2**	**497.9**	**(22.7)**	**(4.6%)**
Income tax	147.8	186.8	(39.0)	(20.9%)
Net profit/(loss)	**327.4**	**311.2**	**16.3**	**5.2%**
Profit/(Loss) due to third parties	33.5	31.4	2.1	6.7%
Net profit/(loss) attributable to the Group	**293.9**	**279.7**	**14.2**	**5.1%**

The table below shows the main impact of the change in the consolidation scope at 31 December 2023 (gross of intercompany adjustments). For more details, see the paragraph "Main changes in the consolidation scope".

€ milion	Tecnoservizi	ASM Terni	Energy Box	Polo Cirsu business	Total
Consolidated net revenue	14.7	63.9	(5.8)	17.9	**90.7**
Consolidated operating costs	12.4	54.0	(1.1)	6.9	**72.1**
EBITDA	**2.3**	**10.0**	**(4.7)**	**11.0**	**18.6**
Operating profit/(loss)	**(0.1)**	**3.7**	**(4.5)**	**4.9**	**3.9**

As at 31 December 2023, **revenue from sales and services** amounted to € 4,430.3 million, a decrease of € 526.9 million (-10.6%) compared to the previous year. This decrease is attributable to lower revenues from sales and services of electricity (-€ 667.5 million) and gas (-€ 27.4 million) due to the increase in unit prices seen in 2022, as well as lower quantities and lower revenues from managing the electricity incentive payment (GRIN) due to different scheduling for GRIN incentives by the GSE (-€ 5.0 million). This change was offset by:

- greater revenue from waste disposal and landfill operations (+€ 50.3 million), almost entirely attributable to the change in the scope of consolidation (+€ 62.7 million), partially offset by lower revenue from energy sales due to both price trends and lower volumes (-€ 9.0 million) and lower revenue from contributions from the Compost supply chain (-€ 4.0 million);
- greater revenue from the Integrated Water Service (€ 36.0 million), partially due to greater investments and partially to the effects of the increase in tariff revenue, also influenced by the biennial tariff update for 2022-2023 as well as the estimate for adjustments for pass-through items (electricity, wholesale water, etc.);
- greater revenue from customer services (+€ 18.8 million), in part deriving from the change in contract work in progress for energy efficiency projects (+€ 32.6 million), in part offset by the negative change in inventories linked to multi-year contracts (-€ 11.5 million) and lower revenue realised in relation to the public lighting contract with the Municipality of Rome (-€ 6.2 million);
- greater revenues from sustainable development (+€ 62.0 million) deriving from sales, installation and customer services in the context of energy efficiency projects, smart services and smart comp.

Other revenue shows an increase of € 38.1 million (21.0%) compared to the previous year. The change mainly derived from: i) greater contingent assets (+€ 20.5 million), for the most part recognised following the allocation of energy items relative to previous years; ii) greater reimbursements for damages and penalties (+€ 8.9 million), in part attributable to Acea Energia (+€ 7.6 million) due to the increase in indemnities for the Cmor component and to *areti* (+€ 2.3 million), associated with settlements finalised with suppliers; iii) greater revenue from Gori due to the recognition of contributions for Regional Works for the years 2018-2021 (+€ 5.4 million); iv) greater revenues from the IFRIC 12 margin (+€ 3.1 million) following greater investments; v) lower energy account contributions (-€ 3.7 million), mainly following the deconsolidation of the photovoltaic companies.**External costs** decreased overall by € 617.6 million (-17.4%) compared to 31 December 2022. The change is due to the reduction in costs associated with electricity and gas procured on the free market and the gradual protection market (-€ 721.3 million) in line with that seen in revenues and lower recognition of contingent liabilities (-€ 11.3 million), for the most part associated with the recognition of the items relative to 2020 in the previous year, recognised in a lower amount, at the time of the biennial update of the tariff structure 2020-2023, particularly with reference to the "RCARC" component, partially compensated by greater contingencies in relation to the allocation of energy items relative to previous years. This reduction was offset by the increase:

- in costs for services and contract work (+€ 95.4 million), in large part linked to energy efficiency and smart services projects (+€ 73.5 million), in line with that recognised in revenues, in costs for disposal and transport of sludge, slag, ash and waste (+€ 7.1 million) and greater costs for Cmor indemnities (+€ 7.9 million). A generalised reduction in other spending items offset this increase, including lower technical and administrative services (-€ 7.5 million), advertising and sponsorship costs (-€ 5.0 million) and lower maintenance fees (-€ 4.5 million). The change in the scope of consolidation impacted the item for a total of +€ 33.9 million;
- costs to purchase materials (+€ 5.0 million), influenced for the most part by the change in the scope (+€ 2.9 million);
- costs for compensation for damages (+€ 3.0 million for *areti* deriving from indemnities to clients and losses on lapsed credits.

The **cost of labour** rose by € 29.4 million (+9.6%) with respect to the previous year, partially influenced by the change in scope (+€ 20.2 million), as well as the increase in salaries and wages deriving from the incremental effect on payment components and the changes in national collective labour contracts.
The average number of employees was 10,348 and increased by 137 compared to the previous year, owing mainly to the change in scope (78 employees)

€ milion	2023	2022	Change	% Change
Personnel costs including capitalised costs	532.0	499.1	32.9	6.6%
Costs capitalised	(197.5)	(194.0)	(3.5)	1.8%
Staff costs	**334.5**	**305.1**	**29.4**	**9.6%**

The **net income/(expense) from commodity risk management** shows a net balance. The previous years it included net income on hedging derivatives closed in the period, in line with IFRS 9.
Income from equity investments of a non-financial nature represents the consolidated result according to the equity method included among the components forming the consolidated EBITDA of the strategic companies.

€ million	2023	2022	Change	% Change
EBITDA	**156.5**	**150.8**	**5.7**	**3.8%**
Amortisation, depreciation, provisions and impairment charges	(128.5)	(108.3)	(20.2)	18.7%
Equity investments	(7.8)	(3.2)	(4.6)	145.6%
Income tax	(5.8)	(11.5)	5.6	(49.1%)
Income from equity investments of a non-financial nature	**14.4**	**27.9**	**(13.6)**	**(48.4%)**

Income from equity investments for these companies fell by € 13.6 million, mainly due to greater amortisation/depreciation.

EBITDA rose from € 1,305.0 million at 31 December 2022 to € 1,390.9 million at 31 December 2023, recording an increase of € 85.9 million or 6.6%. EBITDA net of the change in scope (€ 18.6 million) and non-recurring items for 2022 (€ 20.0 million), for the most part involving sales of CO2 rights after resolution no. 66/22 (€ 11.1 million) and the write down on plants subject to revamping (€ 9.1 million) resulted in growth of 6.9% (€ 87.0 million). The change is therefore due to the following counterbalancing effects:

- lower margins for WTEs due in part to the energy situation (-€ 4.6 million) and in part due to lower amounts of energy sold (-€ 0.4 million);
- lower margins from composting activity (-€ 5.2 million), TBM and landfill (-€ 4.0 million) and recycling (-€ 4.0 million) consequent to lower tariffs and lower quantities;
- lower margins from hydroelectric and thermoelectric production (-€ 22.0 million), mainly impacted by the price effect (-€ 46.0 million) and partially offset by greater quantities (+€ 24.0 million);
- higher margins from the increase in water tariff revenue, relative to non-pass-through items (+€ 37.0 million), in part influenced by the biennial tariff update for 2022-2023;
- the recognition by Gori of contributions for Regional Works for the years 2018-2021 (+€ 5.3 million);
- lower margins from energy balancing (+€ 16.1 million) and management of the public lighting service in the Municipality of Rome (+€ 3.0 million) following extraordinary maintenance and safety activities and extraordinary items relative to previous years;

- an increase in the margin on sales of electricity and gas on the free market (respectively +€ 27.5 million and +€ 29.6 million), offset by the reduction in the energy margin on the protected market (-€ 13.9 million) and the margin from energy management activities (-€ 24.5 million);
- an increase in margins for added value services (+€ 8.1 million), in relation work done in the energy efficiency area.

EBIT amounted to € 612,3 million and increased by € 46.5 million compared to the previous year. Below are details of the items influencing EBIT.

€ million	2023	2022	Change	% Change
Depreciation/amortisation and impairment losses	651.8	594.6	57.2	9.6%
Net write-downs (write-backs) of trade receivables	86.5	113.4	(26.9)	(23.7%)
Provisions and releases for risks and charges	40.2	31.2	9.1	29.1%
Amortisation, depreciation, impairment and provisions	**778.5**	**739.2**	**39.4**	**5.3%**

The increase in **amortisation and impairment** (+ € 57.2 million) is mainly linked to natural growth in amortisation for regulated business, for the most part in the "Water" segment, as a consequence of greater investments, of assets in progress beginning to be utilised and, in part, growth in amortisation relative to commissioning costs to acquire new Acea Energia customers (+€ 6.2 million). The change in the scope of consolidation accounted for € 13.6 million of the increase, due to effects following the acquisition of the "Polo Cirsu" business unit (+€ 6.1 million) and the consolidation at the end of 2022 of ASM Terni (+€ 5.2 million) and Tecnoservizi (+€ 2.4 million).

Net write-downs (write-backs) of trade receivables declined with respect to the previous year, both in terms of absolute value (-€ 26.9 million) and in terms of impact on Group consolidated revenues (1.9% vs. 2.2%). Beyond the excellent amounts collected by the main companies, this result can be attributed to the following reasons: with reference to the Commercial B.U. (-€ 12.0 million), the reduction in volumes invoiced as a consequence of commercial policies to break up risk and trends in commodities prices; for the "Water" segment (-€ 13.8 million), the combination of i) business growth ii) the favourable resolution of certain credit settlements of significant amount by Acea Ato2, iii) the presence of a non-recurring extraordinary component for Gori in 2022 (settlement with EIC [Campania Water Authority]) for previous items equal to around +€ 5.6 million. Finally, as in previous periods, the "stress scenario" introduced in 2022 for the main Group companies was substantially maintained, intended to anticipate potential issues with customer standing not identifiable from current performance but based on satellite models utilising macroeconomic e-business information.

Provisions and releases for risks and charges were up with respect to the previous year (+€ 9.1 million). The change is due to greater provisioning by Acea Ato2, mainly linked to a payment injunction from the Lazio Region with reference to a request to recognise greater concession fees relative to the period prior to 2011 (+€ 5.6 million), *a*reti for various provisioning including former Enel shift workers, the Arera Cmor proceedings, the Arera complaint for residence change charges (+€ 5.0 million), Acea Innovation (+€ 2.7 million) in relation to ecobonus disputes, Cavallari (+€ 2.2 million), mainly for provisioning for the notice of findings deriving from the audit carried out by the Labour Inspectorate with reference to social security contributions and Acea Energia for the release of the provision allocated for the AGCM penalty following the ruling with which the Lazio Regional Administrative Court annulled the provision due to the compliance of Acea Energia's actions with the regulation in question, as reconstructed by ARERA in its internal procedural opinion (€ 2.6 million). This change was offset by lower provisioning, net of amounts released, for the Group's mobility programmes (-€ 10.2 million).

Financial management shows net expense of € 136.5 million, up compared to 31 December 2022 by € 50.8 million due to the combined effects of higher interest rates and the increase in the average debt during the period. In particular, the increase in financial expense suffered from: i) greater interest recorded by the parent company on bond loans, mainly due to the parent company's new € 700 million issue (+€ 24.0 million) and greater interest on medium/long-term borrowings (+€ 16.5 million) due to the increase in short-term interest rates (+€ 8.0 million); ii) greater expenses recognised by Acea Energia in relation to interest on deferments for € 7.9 million. With reference to financial income, note i) the increase in interest income on short-term receivables (+€ 13.2 million), of which € 10.8 million relative to interest income on the parent company's short-term deposits; ii) greater interest income from customers for € 8.1 million mainly attributable to the increase in market rates; iii) lower discounting income in relation to the discounting income recognised by Gori in 2022 (-€ 11.1 million).
The average overall all-in cost of the Acea Group's debt stood at 2.08% compared to 1.44% the previous year.

Income and expense from equity investments show net income of € 0.6 million, down by € 18.4 million compared to the previous year. This reduction is largely due to the recognition in 2022 of net capital gains (€ 16.4 million) following the sale of a group of photovoltaic plants as part of the agreement signed with the British investment fund Equitix. The effects, following deconsolidation of the decommissioned assets at 31 December 2021, also included the provisional appraisal of the assets and liabilities relative to the second closing, classified with respect to IFRS 5.

The **estimated tax burden** is € 147.8 million, compared to € 186.8 million of the previous year. The reduction is due to the combined effects of lower before tax profit and a lower tax rate, impacted in 2022 by the extraordinary solidarity contribution pursuant to article 37 of Decree Law 21/2022 ("extra-profit contribution"). The tax rate at 31 December 2023 was 31.1% (37.5% at 31 December 2022).

The **net profit attributable to the Group** was € 293.9 million, and showed an increase of € 14.2 million compared to the previous year. The change net of one-off effects (€ 38.0 million) and the change in the scope (€ 2.4 million) shows an increase of around € 50 million (+22%).

SUMMARY OF RESULTS: TRENDS IN FINANCIAL POSITION AND CASH FLOWS

Financial position data

€ million	31/12/2023	31/12/2022	Change	% Change
Non-current assets and liabilities	8,366.1	7,847.0	519.1	6.6%
Net Working Capital	(696.2)	(652.0)	(44.2)	6.8%
Net Invested Capital	7,669.8	7,194.9	474.9	6.6%
Net Financial Debt	(4,846.8)	(4,439.7)	(407.1)	9.2%
Total Shareholders' equity	**(2,823.1)**	**(2,755.2)**	**(67.8)**	**2.5%**

Non-current assets and liabilities

With respect to 31 December 2022, non-current assets and liabilities increased by € 519.1 million (+6.6 %), below is a breakdown of the item:

€ million	31/12/2023	31/12/2022	Change	% Change
Tangible/intangible fixed assets	7,885.2	7,383.0	502.1	6.8%
Equity investments	367.3	351.9	15.4	4.4%
Other non-current assets	958.8	844.6	114.2	13.5%
Employee severance indemnity and other defined-benefit plans	(109.9)	(113.0)	3.1	(2.7%)
Provisions for risks and charges	(224.3)	(218.0)	(6.3)	2.9%
Other non-current liabilities	(511.1)	(401.5)	(109.5)	27.3%
Non-current assets and liabilities	**8,366.1**	**7,847.0**	**519.1**	**6.6%**

The increase in **property, plant and equipment and intangible fixed assets** (+€ 502.1 million) mainly derives from investments, totalling € 1,142.7 million, offset by amortisation/depreciation and write-downs for a total of € 651.8 million.

The change in investments compared to the previous year is € 92.6 million and mainly refers to the Water Segment (+€ 71.4 million). Investments during the period are linked to regulated businesses for 89%, below are the investments made by each Industrial Area.

Investments

€ million	31/12/2023	31/12/2022	Change	% Change
Environment	38.9	46.2	(7.3)	(15.9%)
Commercial	50.2	49.6	0.6	1.2%
Water (Overseas)	5.7	5.8	(0.1)	(1.4%)
Water	682.4	611.0	71.4	11.7%
Networks & Smart Cities	299.6	268.8	30.8	11.5%
Production	41.1	30.3	10.8	35.7%
Engineering & Infrastructure Projects	4.7	5.8	(1.1)	(18.8%)
Corporate	20.1	32.7	(12.6)	(38.4%)
Total Investments	**1,142.7**	**1,050.1**	**92.6**	**8.8%**

Equity investments increased by € 15.4 million compared to 31 December 2022. The change was caused by the increase in the measurement of equity measured consolidated companies during the period, which contribute to EBITDA (+€ 14.6 million) and the change in scope (+€ 5.9 million), net of the effects of dividend distribution (-€ 7.7 million) and the impact of the change in the "other comprehensive income" reserves (-€ 4.4 million). Note that "Other equity investments" saw an increase of € 5.1 million following the parent company's acquisition of 1,250,000 Bonifiche Ferraresi SpA shares.

The stock of **employee severance indemnity and other defined benefit plans** fell by € 3.1 million, mainly due to the decrease in the isopension fund. The discounting rate went from 4.0% at 31 December 2022 to 3.2% at 31 December 2023.

Provisions for risks and charges increased by € 6.3 million compared to the end of the previous year; the details, divided by the nature of the provisions, are presented below.

€ million	31/12/2022	Uses	Provisions	Release for excess provisions	Reclassifications/ Other changes	31/12/2023
Legal	14.6	(2.0)	2.6	(2.3)	0.1	13.0
Taxes	5.7	(0.5)	0.6	(0.8)	(0.0)	5.0
Regulatory risks	31.6	(0.5)	4.4	(0.5)	1.1	36.0
Investees	8.2	(2.1)	0.4	0.6	5.7	12.8
Contributory risks	1.5	0.0	2.3	(0.1)	(0.0)	3.7
Insurance deductibles	10.9	(2.2)	2.4	0.0	0.0	11.0
Other risks and charges	28.0	(4.2)	20.3	(1.5)	(3.5)	39.0
Total provision for risks	**100.4**	**(11.6)**	**32.9**	**(4.6)**	**3.3**	**120.5**
Staff mobility	28.0	(18.0)	10.0	0.0	(8.7)	11.4
Post mortem	68.3	(0.4)	(0.0)	0.0	4.5	72.4
Provision for expenses payable to others	21.1	(2.2)	1.9	0.0	(0.9)	19.9
Provisions for interim taxes	0.0	0.0	0.0	0.0	(0.0)	0.0
Provisions for reinstatement expenses	0.1	0.0	0.0	0.0	(0.0)	0.1
Total provisions for expenses	**117.6**	**(20.6)**	**11.9**	**0.0**	**(5.2)**	**103.8**
Total provisions for risks and charges	**218.0**	**(32.1)**	**44.8**	**(4.6)**	**(1.8)**	**224.3**

Other non-current assets increased by € 114.2 million, mainly due to the rise in long-term receivables from regulatory accounting (+€ 73.6 million), tariff adjustments (+€ 34.5 million) and receivables for deferred taxes (+€ 25.2 million), partially offset by the decrease in the fair value of derivatives receivable (-€ 5.1 million). The increase in **other non-current liabilities** (+ € 109.5 million) instead mainly refers to greater accrued expenses relative to plant contributions (+€ 113.4 million), partially compensated for by lower security deposits (-€ 4.2 million).

Net working capital

The change in net working capital compared to 31 December 2022 results from the combined effect of a decrease in current receivables (-€ 52.2 million), a decrease in other current assets (-€ 69.0 million), a decrease in current payables (-€ 94.0 million) and an increase in other current liabilities (+€ 10.3 million).

€ million	31/12/2023	31/12/2022	Change	% Change
Current receivables	**1,213.2**	**1,265.4**	**(52.2)**	**(4.1%)**
- of which end users/customers	*1,170.0*	*1,216.1*	*(46.1)*	*(3.8%)*
- of which Roma Capitale	*21.0*	*35.6*	*(14.7)*	*(41.1%)*
- of which from subsidiaries and associates	*22.2*	*13.7*	*8.5*	*62.6%*
Inventories	**97.8**	**104.5**	**(6.7)**	**(6.4%)**
Other current assets	**418.1**	**487.1**	**(69.0)**	**(14.2%)**
Current payables	**(1,750.5)**	**(1,844.5)**	**94.0**	**(5.1%)**
- of which suppliers	*(1,741.8)*	*(1,802.6)*	*60.8*	*(3.4%)*
- of which Roma Capitale	*(4.9)*	*(34.8)*	*29.9*	*(85.9%)*
- of which from subsidiaries and associates	*(3.8)*	*(7.1)*	*3.3*	*(46.2%)*
Other current liabilities	**(674.9)**	**(664.6)**	**(10.3)**	1.6%
Net working capital	**(696.2)**	**(652.0)**	**(44.2)**	**6.8%**

Receivables from users and customers, net of provisions for impairment of receivables, amount to € 1,170.0 million and show a decrease with respect to 31 December 2022 of € 46.1 million, mainly due to the reduction seen in the Commercial Segment (-€ 106.6 million), for the most part affected by energy prices the previous year and lower quantities invoiced; this change was partially offset by the increase in the Water Segment (+€ 42.6 million) and the Networks & Smart Cities Segment (+€ 10.1 million).
The provision for doubtful receivables amounts to € 628.1 million, up with respect to 31 December 2022 (when it was € 615.5 million). Performing receivables totalling € 1,218.6 million were transferred without recourse during 2023, of which € 171.1 million to the Public Administration.

Relations with Roma Capitale

As regards **relations with Roma Capitale**, the net balance at 31 December 2023 was € 17.2 thousand receivable by the Group (€ 1.7 million at 31 December 2022). Below is a breakdown of the situation with Roma Capitale:

Receivables due from Roma Capitale

	31/12/2023	31/12/2022	Change
Utility receivables	17.6	32.9	(15.3)
Provisions for impairment	(1.8)	(1.7)	(0.0)
Total receivables from users	**15.8**	**31.2**	**(15.3)**
Receivables for water works and services	3.8	3.8	0.0
Receivables for water works and services to be invoiced	0.9	0.6	0.4
Provisions for impairment	(2.2)	(2.2)	0.0
Receivables for electrical works and services	4.5	4.4	0.2
Receivables works and services - to be billed	0.4	0.2	0.2
Provisions for impairment	(0.3)	(0.3)	0.0
Total receivables for works	**7.2**	**6.5**	**0.7**
Total trade receivables	**23.0**	**37.7**	**(14.7)**
Financial receivables for Public Lighting services billed	139.1	135.1	4.0
Provisions for impairment	(58.0)	(58.0)	(0.0)
Financial receivables for Public Lighting services to be billed	46.9	36.3	10.6
Provisions for impairment	(13.7)	(5.4)	(8.3)
M/L term financial receivables for Public Lighting services	1.6	4.8	(3.2)
Total Public Lighting receivables	**115.9**	**112.8**	**3.1**
Total receivables	**138.9**	**150.5**	**(11.6)**

Payables due to Roma Capitale

	31/12/2023	31/12/2022	Change
Electricity surtax payable	(5.5)	(5.5)	(0.0)
Concession fees payable	0.0	(27.6)	27.6
Other payables	(8.3)	(9.8)	1.5
Dividend payables	(107.9)	(105.9)	(1.9)
Total payables	**(121.7)**	**(148.8)**	**27.1**
Net balance receivables payables	**17.2**	**1.7**	**15.5**

In terms of trade and financial receivables, an overall decrease of € 11.6 million was seen with respect to the previous year, mainly due to the sizeable contribution from amounts collected totalling € 114.6 million, which exceeded the amounts of receivables coming due during the period.
The main changes in the year are as follows:
- Accrual of Acea Ato2 receivables for the supply of water for € 54.1 million;
- Accrual of receivables for the Public Lighting service for € 47.4 million;
- collection/offset of Acea Ato2 receivables for utilities for € 69.4 million;
- collection/offset of Acea Ato2 receivables for IP fees for € 44.3 million.

Payables decreased by € 27.1 million compared to the previous year. The main changes during the period are as follows:
- greater payables for recognition of 50% of share dividends accrued for 2022 by Acea for € 46.2 million (note that in June 2023, when the coupon was detached, Roma Capitale was paid

50% of the dividends for the year, equal to € 46.2 million);
- higher payables due to the recognition of the Acea Ato2 concession fee for 2023 for € 25.3 million;
- higher payables due to the recognition of Acea Ato2 stock dividends for 2022 for € 2.4 million;
- payment of Acea share dividends for 2020, for € 44.3 million;
- payment of Acea Ato2 concession fees for 2022 and 2023 for a total of € 44.4 million, with the consequent elimination of the relative payables at the end of the year;
- payment of the amounts due for road excavation permits by *areti* to municipalities for a total of € 12.0 million, plus the payable for Cosap 2023 for € 1.9 million.
-

With specific reference to just offsetting operations during the year, summarised above, below are details on the main operations chronologically:
- April 2023: offsetting of receivables for € 18.1 million related to the water supply service against the Acea Ato2 concession fee for 2022;
- September 2023: offsetting of receivables for € 12.7 million for public lighting fees for the last quarter of 2022 (including the price adjustment component) plus work performed for the IP service against Acea 2020 share dividends;
- October 2023: offsetting of receivables for € 26.3 million related to the water supply service against the Acea Ato2 concession fee for 2022 and 2023;
- October 2023: offsetting of receivables for € 2.4 million relating to the water supply service against Acea Ato2's share dividends for 2022;
- October 2023: collection of receivables for € 9.2 million relative to the water supply service;
- November 2023: offsetting of receivables for € 17.3 million for fees for the public lighting service for the first half of 2023, against Acea share dividends for 2020;
- December 2023: collection of receivables for € 13.3 million relative to the water supply service;
- December 2023: offsetting of receivables for € 14.3 million for receivables to extraordinary modernisation and maintenance in 2022 for the public lighting network and work associated with the Quality of Light Plan against Acea share dividends for 2020.

Recall that as part of the activities required for the first consolidation of the Acea Group in the 2018 Financial Statements of Roma Capitale, a round table was launched to reconcile the Roma Capitale receivables and payables. The Group companies chiefly concerned are Acea and Acea Ato2. After several meetings and communications, on 22 February 2019 the Technical Department of the Municipality (SIMU) in charge of the management of the contracts with the Acea Group communicated several objections relating to the supply of both works and services for the period 2008-2018. These objections were completely rejected by the Group. In order to arrive at a complete resolution of the differences, during 2019 a specific Joint Technical Committee was set up with the Acea Group. Following several meetings, on 18 October 2019, the Joint Technical Committee drew up a report on the closure of the work, highlighting the results that emerged and proposing a favourable restart of the ordinary execution of the mutual obligations between the Acea Group and Roma Capitale. As a first step after the completion of the work, the parties took steps to implement the results that emerged from the discussions, restarting the payment of their respective receivables and payables.
For the Public Lighting contract at the end of 2020 the AGCM made its position clear regarding the legitimacy of the existing contract, to this day a source of audits, works and joint investigation. Among other things, the measure also gave rise to audits on the congruity of the prices applied. In February 2021, following the aforesaid feedback and works, Roma Capitale confirmed the absolute congruity and convenience of the current economic terms with respect to the CONSIP parameters. Therefore, also during 2021, while awaiting the conclusion and finalisation of these aspects, Acea regularly continued to provide the Public Lighting service. The service has therefore been invoiced and has partly already been paid by Roma Capitale, as seen in the data below:
- in 2020 at total of € 33.3 million of receivables referred to the aforementioned report were settled in the Group;
- During 2021 a new Public Lighting Technical Panel comprising Acea and Roma Capitale was set up with the intention of continuing the resolution of issues preventing the liquidation of receivables. As a result of this work, Roma Capitale paid Acea the Public Lighting receivables for € 75.3 thousand through offsets;
- during 2022, settlement activities with Roma Capitale continued, which allowed continuation of the liquidation of Acea receivables, through offsetting of a total of € 56.5 million, of which € 27.6 million relative to fees for previous years.

Note that on 11 August 2022, the City Executive Committee with resolution no. 312 entitled "Public and artistic-monumental public lighting service on the entire municipal territory – Concessionaire: Acea SpA- Recognition of the perimeter of the payable situation and launch of the consequent procedures" recognised the perimeter of the Administration's payables to Acea/Areti in relation to the Public Lighting service as of 31 December 2021.
This resolution was published on the institutional website of Roma Capitale on 30 August 2022 and with reference to the same, dialogue is still in progress with Roma Capitale.
During 2023, specifically in September, the Acea Board of Directors, after receiving the opinion of the Related Party Transactions Committee, approved the proposal for a Settlement Agreement with Roma Capitale, to govern their reciprocal positions and the methods for the early consensual termination of the contractual relationships between the parties for the public lighting service provided by the company and for it by the subsidiary *areti*.

At the same time, Roma Capitale also approved the draft Settlement Agreement in the City's Assembly in December 2023.
With reference to the economic terms of this possible Settlement Agreement, substantially in line with the City Executive Committee resolution 312 of 11 August 2022, following the reciprocal renunciation by the parties, the agreement calls for the recognition of receivables due to Acea/*areti* from Roma Capitale for a total of around € 100.6 million. The economic and financial effects of the settlement, following the signing which had not yet occurred as of the reporting date, will not have significant effects as the Group had already updated its estimates in previous financial statements utilising the criteria established in the relevant regulations.

Current payables fell mainly due to the decrease in the stock of trade payables (-€ 60.8 million). This effect for the most part derives from the decrease registered by Acea Energia (-€ 95.2 million), mainly suffering from higher prices on the energy market in the previous year, in part offset by the increase in payables due to contractors for energy efficiency work, as well as electric mobility with reference to Acea Innovation (+€ 38.3 million).

Other current assets and liabilities recorded a decrease in assets of € 69.0 million and an increase in liabilities of € 10.3 million, compared to the previous year. More specifically, **other assets** decreased due to the drops seen in: i) receivables for energy balancing (-€ 35.6 million); ii) the value of derivative instruments on commodities receivable (-€ 58.9 million); iii) receivables from AATO (-€ 6.7 million) relative to the IWS; iv) receivables for accrued Green Certificates (-€ 5.8 million) mainly due to the scheduling of GRIN incentives as well as vi) IRES and IRAP receivables (-€ 13.2 million) and receivables for advances to suppliers (-€ 7.8 million) mainly attributable to Acea Innovation and relative to the start of energy efficiency contracts. The decrease is partially offset by the increase in tax credits accrued on energy efficiency projects (€ 68.9 million). More specifically, **current liabilities** increased as an effect of the increase in amounts due to Cassa for energy and environmental services for *a*reti (+€ 99.4 million), due to the change in the regulatory framework relative to the Social Bonus and the reintroduction of general system charges starting in the second quarter of 2023, as well as the increase deriving from advances received on investments financed mainly by Gori (+€ 25.3 million). This change was offset by the decrease in payables due to CSEA (Cassa for Energy and Environmental Services) from Acea Energia (-€ 50.6 million) as an effect of covering imbalances in the equalisation system for electricity purchasing and dispatching costs destined for the greater protection service, the reduction in the payable relative to the acquisition of 35% of Deco for € 33.5 million and the payable for the acquisition of 30% of SIMAM for € 13.0 million, as well as the reduction in the payable for the extraordinary solidarity contribution pursuant to article 37 of Decree Law 21/2022 relative to Acea Produzione (-€ 18.4 million).

Shareholders' equity

The shareholders' equity amounted to € 2,823.1 million. The changes seen, totalling € 67.8 million, are analytically presented in the relevant table and essentially derive from profits accruing in 2023, distribution of dividends, the change in the scope of consolidation and the change in cash flow hedge reserves, as well as those formed by actuarial gains and losses.

NET FINANCIAL DEBT

Group **debt** recorded an overall increase of € 407.1 million, going from € 4,439.7 million at the end of 2022 to € 4,846.8 million at 31 December 2023.

€ million	31/12/2023	31/12/2022	Change	% Change
A) Cash	359.4	559.9	(200.5)	(35.8%)
B) Cash equivalents	0.0	0.0	0.0	n.s.
C) Other current financial assets	487.3	342.1	145.2	42.4%
D) Liquidity (A + B + C)	**846.6**	**902.0**	**(55.4)**	(6.1%)
E) Current financial debt	(176.1)	(165.4)	(10.7)	6.5%
F) Current portion of non-current financial debt	(746.8)	(454.0)	(292.8)	64.5%
G) Current financial debt (E + F)	**(923.0)**	**(619.4)**	**(303.5)**	49.0%
H) Net current financial debt (G + D)	**(76.3)**	**282.6**	**(358.9)**	(127.0%)
I) Non-current financial debt	(4,770.4)	(4,722.3)	(48.2)	1.0%
J) Debt instruments	0.0	0.0	0.0	n.s.
K) Trade payables and other non-current payables	0.0	0.0	0.0	n.s.
L) Non-current financial debt (I + J + K)	**(4,770.4)**	**(4,722.3)**	**(48.2)**	1.0%
Total net financial debt (H + L)	**(4,846.8)**	**(4,439.7)**	**(407.1)**	**9.2%**

Non-current financial debt increased by € 48.2 million compared with the end of the 2022 financial year. This change derives from an increase in bond loans of € 104.7 million and from a decrease in payables for medium/long-term loans of € 61.7 million, as shown in the following table:

€ million	31/12/2023	31/12/2022	Change	% Change
Bonds	3,939.2	3,834.5	104.7	2.7%
Medium/long-term borrowings	752.7	814.4	(61.7)	(7.6%)
IFRS 16 financial payables	78.6	73.4	5.2	7.1%
Non-current financial debt	**4,770.4**	**4,722.3**	**48.2**	**1.0%**

Bonds, equal to € 3,939.2 million at 31 December 2023, show a total increase of € 104.7 million due to the combined effects of the € 5 billion placement on 17 January 2023 under the Euro Medium Term Notes programme (EMTN), of a Green Bond with an initial amount of € 500 million, increased by a further € 200 million on 3 February (3.875% interest rate, maturing on 24 January 2031), offset by € 600.0 million for the reclassification to current of the 10-year bond issued by Acea in July 2014.

Medium/long-term loans amounting to € 752.7 million recorded an overall decrease of € 61.7 million due to the parent company (-€ 31.1 million) and *areti* (-€ 27.8 million). The following table shows medium/long-term and short-term borrowings (excluding the portion due to application of IFRS 16) by term to maturity and type of interest rate.

€ million	Total Residual Debt	By 31/12/2024	From 31/12/2024 to 31/12/2028	After 31/12/2028
fixed rate	260.8	32.5	130.2	98.1
floating rate	405.7	50.3	177.4	178.0
floating rate cash flow hedge	191.7	22.7	141.4	27.6
Total	**858.1**	**105.5**	**449.0**	**303.8**

The **fair value** of GORI's hedging derivatives was a positive € 4.2 million (as at 31 December 2022, it was a positive € 6.6 million). Acquedotto del Fiora was a positive € 3.3 million (as at 31 December 2022, it was a positive € 5.5 million), and that of IWS was a positive € 1.0 million (as at 31 December 2022 it was a positive € 1.6 million). Positive fair values are found under "Non-current financial assets" and are not considered in the balance of correlated loans.

The **short-term component** was negative at € 76.3 million and, compared to the end of 2022, worsened by € 358.9 million, generated for € 328.7 million by the Parent Company, for € 26.0 million by GORI, for € 10.3 million by Acea Produzione and for € 6.7 million by *areti*. The change seen by the parent company was mainly generated by the reclassification to current of the short-term portion of the 10-year bond issued by Acea in July 2014 (+€ 600 million), partially offset by the reduction in current financial payables following the payment of the bond which had matured (-€ 300.0 million), the reduction in cash and cash equivalents (-€ 200.5 million) and higher short-term deposits (+€ 351.2 million).

Note that financial debt includes € 107.9 million in payables to Roma Capitale for dividends resolved to be distributed and does not include other payables of around € 12.1 million relating to share purchase options of the companies already held.

At 31 December 2023, the Parent Company had unused committed credit lines of € 700.0 million and uncommitted lines of € 425.0 million, of which € 21.0 million used. No guarantees were granted in obtaining these lines. Additionally, note that on 6 July 2023 Acea signed the contract for the first tranche of € 235 million from the EIB loan to support a portion of the Acea Ato3 investments, not utilised at 31 December 2023.

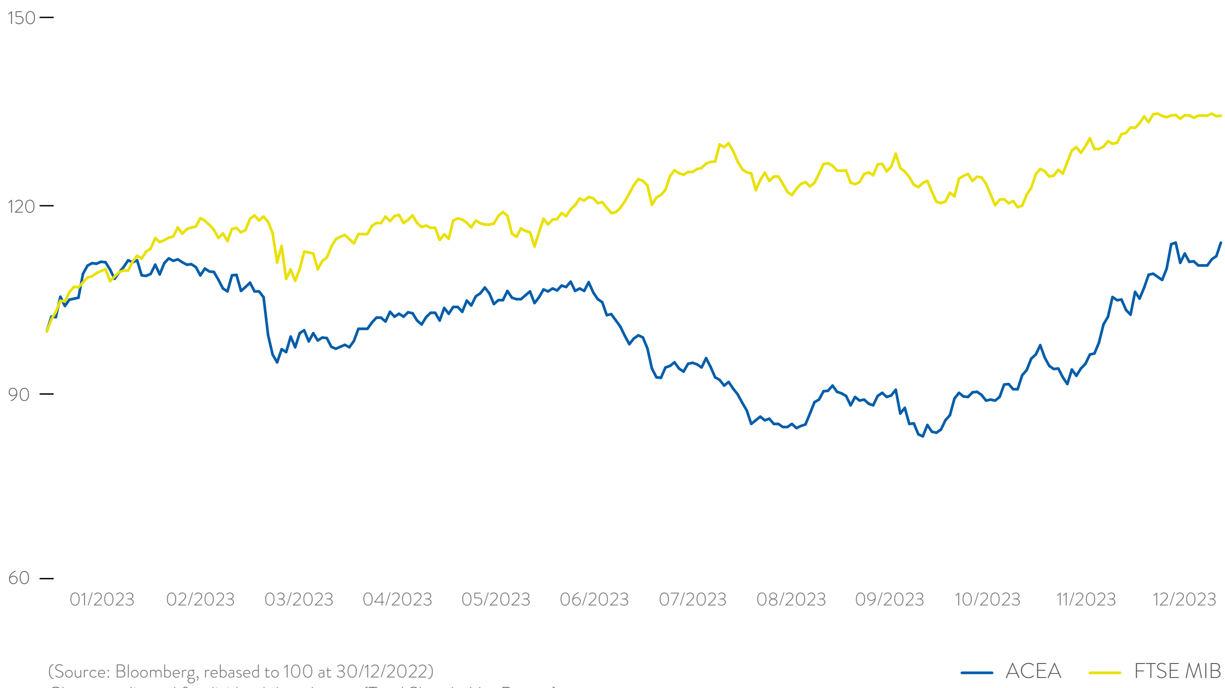
It must be noted that the long-term Ratings assigned to Acea by the International Ratings Agencies were:

- Fitch BBB+;
- Moody's Baa2.

REFERENCE CONTEXT

PERFORMANCE OF THE EQUITY MARKETS AND THE ACEA STOCK

2023 was a year that above all saw a significant reduction in energy commodity prices with respect to the figures seen in 2022, above all gas and coal. This decrease was influenced by the drop in energy consumption and the gradual moderation of fears about energy supplies, also due to new systems for importing LNG coming online which counteracted the impact of the reduction in supplies from Russia.
The drop in commodities prices also contributed to the attenuation of inflation, which at the end of 2023 fell to 2.7% in the Eurozone (vs. 3.4% in the US), compared to the peak of 8% seen in the first quarter of the year. This trend supported expectations of a coming inversion of restrictive monetary policies.
The resilience of the economy (expected 2023 GDP growth of 0.5% in the Eurozone and 2.4% in the US) and expectations of a coming mitigation of restrictive monetary policies also led to a 46 bps decrease in the BTP-Bund spread which at the end of the year was 168 bps.
In this context, Euro Stoxx rose by 19.5% in 2023 (in terms adjusted for dividends - Total Shareholder Return), while the FTSE MIB, in part supported by the decrease in the BTP-Bund spread, appreciated by 34.4%, the best performance of the major stock indexes in the Eurozone. The German DAX and French CAC 40 ended the year overall in line with the Eurozone benchmark.
In 2023, the Eurozone utilities sector saw an average increase of 17.7%, above all thanks to the performance of integrated operators which benefited from the recovery in commercial margins caused by the decline in energy procurement costs and higher hydroelectric availability.
Acea recorded an increase of 14.1% (in terms adjusted for dividends - Total Shareholder Return), substantially in line with the Eurozone index for the sector. The closing price at 29 December 2023 (final trading day of the year) was € 13.83, corresponding to a market capitalisation of € 2,945 million. The maximum value of € 14.42 was reached on 7 February, while the minimum value of € 10.09 was reached on 28 September.
During 2023, the daily average volumes traded were around 171,000 shares (compared to 130,000 in 2022).

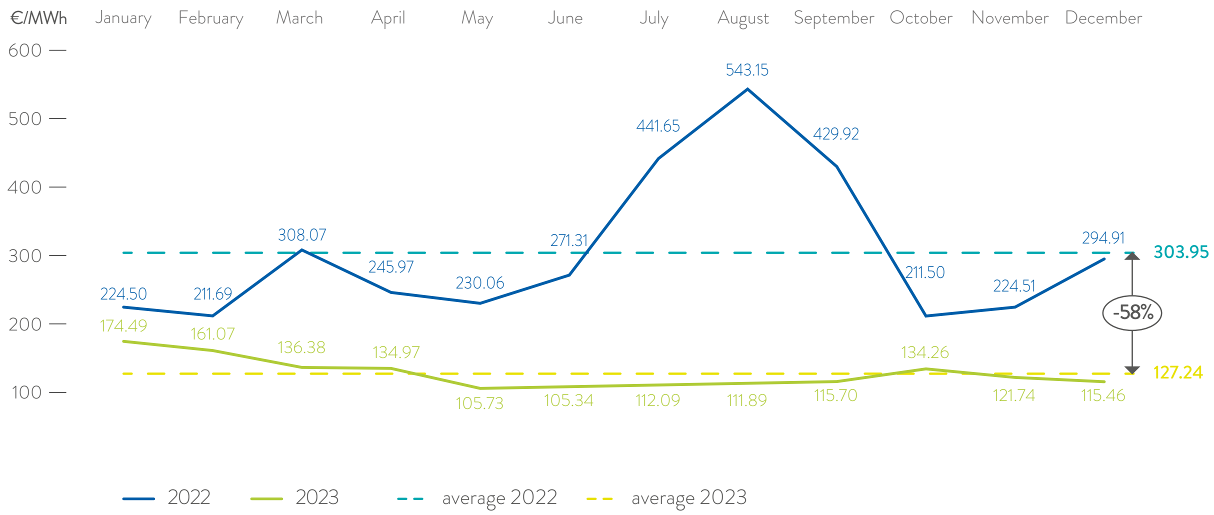


(Source: Bloomberg, rebased to 100 at 30/12/2022)
Changes adjusted for dividend detachment (Total Shareholder Return)

ENERGY MARKET

Relative to the domestic electricity market, electricity demand in 2023 totalled 307,749 GWh, (source: Terna), down by -2.5% with respect to the previous year. Despite the negative result, the gap compared to 2022 fell gradually over the year, such that in the fourth quarter an increase of +1.2% year on year was recorded.
This reversal of trend, already partially seen in the third quarter, can be attributed on one hand to 2022 consumption which was strongly down due to high utility prices and the reductions requested by the European Commission to reduce consumption of gas generated through electricity during the energy crisis, and on the other to meteorological factors, with intense heat waves in July and August 2023 and an extended summer season through September/October 2023 (+1 °C with respect to September/October 2022) which kept cooling consumption high.
Energy production, net of self-consumption and consumption by pumping (29,227 GWh, +10.6%) came to 227,277 GWh, down by -8% with respect to 2022, and covered 74% of requirements. Net imports consolidated the positive contribution already seen in the beginning of the year, coming to 51,246 GWh (+19.4%) and contributing 16.7% to meeting demand, in part replacing thermoelectric production (135,579 GWh, -20.1%), above all impacted by the large contribution from renewables. In fact, with the sole exception of geothermal (5,347 GWh, -1.6%), renewable sources played the leading role in a very positive 2023, with hydroelectric production up +34.4% (39,833 GWh), compared to the drought impacted 2022, wind was up +15.4% (23,338 GWh) and photovoltaic up +7.3% (24,179 GWh, with an additional 5 GW of photovoltaic capacity installed with respect to 12 months prior).
The Single National Price (SNP) in 2023 saw an average value of € 127.24/MWh, down by -58% over 2022, with the fourth quarter registering an average of € 123.85/MWh (-49% with respect to the fourth quarter of 2022). More specifically, the quarter began with an overreaction by the gas markets, reflected in the electricity markets, to a series of events (above all the Hamas attack on Israel on 7 October) which impacted security and tranquillity embedded in bearish fundamentals, while also giving rise to speculative actions and technical corrections. In the course of a week the daily average SNP gained +40%, reaching € 175/MWh on 16 October, a figure not seen since the beginning of February, followed by a return to more tranquil waters by the end of October (€ 121/MWh on 30 October).

Single National Price (SNP)



With regards to **natural gas**, domestic demand in 2023 came to 59,069 Msmc (source: Snam Rete Gas), down by -10.5% with respect to 2022. The significant decline seen at the beginning of the year (-19.8% with respect to the first quarter figure year on year) was gradually limited due to seasonal absence of residential demand in the spring/summer and an end of the year with temperatures not as high as the previous year, to which were added the more marginal effects of the coal-to-gas switch in electricity generation and the weak signs of recovery coming from the industrial sector compared to the extremely low levels in 2022. Distribution, including residential and SME, ended the year with 26,567 of consumption (-8.6% compared to one year prior, but +5.6% on just the fourth quarter), with the thermoelectric segment requesting 21,079 Msmc of gas (-15.5% in annual change, -9.8% on just the fourth quarter), also thanks to a renewed contribution from renewable production (above all hydroelectric), while the industrial segment required 11,423 Msmc of gas (-4.7% in annual change, +7% on just the fourth quarter).
Overall, 2023 saw an annual average TTF of € 42.98 c/smc (-66% with respect to the same period in 2022) and an annual average PSV of €44.72 c/smc (-65%). In the fourth quarter, the average values were € 42.95 c/smc for the TTF (-57%) and € 43.22 c/smc for the PSV (-57%).
In 2023, the PSV-TTF differential was an average of +€ 1.74 c/smc (+€ 0.27 c/smc for the fourth quarter), trending down by -€ 0.25 c/smc with respect to the value expressed in 2022 (-€ 0.67 c/smc).

Tariffs for transport services

2023 was the eighth year of the new regulatory period, the term of which has been increased from four to eight years (2016-2023) divided into two sub-periods.
The regulations are included in three Integrated Texts: “Integrated

Text of provisions of the Authority for providing electricity transmission and distribution services (TIT)", Annex A to Resolution 568/2019/R/eel, the "Integrated Text of provisions of the Authority for providing the electricity metering service (TIME)"; Annex B to Resolution 568/2019/R/eel, and the "Integrated Text on provisions of the Authority on the economic conditions for providing connection services (TIC)", Annex C to Resolution 568/2019/R/eel, published on 27 December 2019.

For the distribution service, ARERA confirmed unbundling of the tariff applied to end customers (the so-called compulsory tariff) from the reference tariff for determination of the constraint on revenue permitted to each company (the reference tariff). The compulsory tariffs for the year 2023 were published with Resolution 720/2022/R/eel for the distribution and metering services for non-domestic customers, with Resolution 719/2022/R/eel for the provision of the transmission service, with Resolution 721/2022/R/eel for provision of the domestic customers network services.
On 16 May 2023, with Resolution 206/2023/R/eel, provisional reference tariffs were published for 2023 for electricity distribution and metering services for distribution companies serving at least 25,000 withdrawal points.
Also note that with Resolution 154/2023/R/eel, published on 11 April 2023, the definitive reference tariffs for 2022 were published.
The regulations in force in the previous regulatory sub-period include:

1. regulatory lag and return on invested capital;
2. extension of regulatory useful life;
3. tariff adjustment criteria: distribution, sale, measurement.

With regard to the first point, ARERA confirmed the method for offsetting the regulatory lag, recognising new investments made for both Distribution and measurement (without backdating).
The criterion based on the increase in the remuneration rate of invested capital recognised for new investments, of 1% (of the year t-2) was replaced by the introduction of recognition in the capital base (so-called RAB) also of investments made in the year t-1, measured on the basis of pre-final data communicated to ARERA. This data will be used to determine the provisional tariffs of reference and will then be replaced by the final data to determine the definitive tariffs of reference published in the initial months of the following year.
In the year t, the ARERA only recognises the remuneration of the invested capital concerning the assets which entered use in the year t-1, without recognising the relevant depreciation rates (which are still recognised in the year t-2).
In the new sub-period, ARERA confirmed the previously established regulatory useful life.
On 23 December 2021, ARERA published Resolution 614/2021/R/com with which it set the criteria for determining the WACC for the 2022 – 2027 period and established the 2022 rate of return on invested capital for the electricity distribution and metering service at 5.2%, also confirmed for year 2023 with resolution 654/2022/R/com.
In terms of operating costs, the new company-based tariff covers the specific costs by means of a national average cost adjustment coefficient, calculated by the ARERA on the basis of actual company costs and on the basis of scale variables.
These costs, when calculating the company-based tariff, according to the definitions of Resolution no. 568/2019, are supplemented by flat rate connection contributions acknowledged throughout Italy, and will be considered as other grants and no longer deducted from operating costs.
Furthermore, the flat rate connection contributions of each company are deducted directly from the invested capital considering them as equal to MV/LV assets.
Updating of the distribution reference tariff after the first year is individual and based on financial increases reported by the companies on the RAB databases. The updating criterion envisages that:

- the portion of the tariff covering operating costs will be updated using the price cap mechanism (with a productivity recovery target of 1.3%);
- the part covering the costs concerning the remuneration of the invested capital will be updated through the deflater of the fixed gross investments, the change in the volume of service provided, the gross investments that are operational and differentiated by level of voltage, effects of dismissals and disposals
- the part covering the depreciation will be updated through the deflater of the fixed gross investments, the change in volume of service provided, the rate of change connected to the reduction in the gross invested capital due to disposal, withdrawal and end of useful lifetime and the rate of change connected to the investments that are now operational.

As regards marketing, ARERA confirmed a single reference tariff that reflects both the costs for managing the network service and marketing costs, with recognition of the specific capital costs also for investments in marketing activities (single all-inclusive company tariff for the distribution and marketing service).
With regard to the transmission tariff, the ARERA confirmed the introduction of a binomial tariff (capacity and consumption) for high voltage customers, and the cost tariff structure for the transmission service to Terna (CTR), also introducing a binomial price. Given the two tariffs, the equalisation mechanism has been confirmed.
The general equalisation mechanisms for distribution and metering costs and revenue for the regulatory cycle in force are:

- equalisation of the revenues from the distribution service;
- equalisation of the revenues from the low-voltage metering service;
- equalisation of the transmission costs;
- equalisation of the value of the difference between effective losses and standard losses.

The purpose of equalising the revenues of the distribution service is to equalise the revenues deriving from the comparison between the revenues billed to users through the compulsory tariff and the distributor's allowed revenues, calculated through the company's tariff of reference.
With Resolution 568/2019, ARERA established that the equalisation of the revenues from distribution would be reduced by an amount equal to 50% of the net revenues from the use of the electrical infrastructure for purposes additional to the electric service, recorded at the end of year n-2 should the aforementioned net revenue exceed 0.5% of total recognised revenue.
The equalisation of the transmission costs has the objective of passing the distributor in terms of the cost recognised to Terna for the transmission service (CTR) with what was paid by the end customer based on the compulsory transmission tariff (TRAS).
With circular 21/2023/ETL of 18 May 2023, CSEA invited distributors utilising the individual cost recognition regime to indicate whether or not they wish to make use of the advances mechanism for 2023. areti communicated that it would adhere to this, in a certified email (PEC) sent on 19 May 2023.
On 29 September 2023, the consultation document 423/2023/R/eel was published. Its main aspects involve mechanisms to promote aggregation of distribution companies, rationalisation of high volt-

age grid assets, the development of incentives to obtain public contributions, reactive energy tariff regulation and updating of the “other specific performance” envisaged in the TIC. The deadline for submission of comments was 27 October 2023.
Following the consultation, ARERA published Resolution 617/2023/R/eel on 27 December 2023, in which it amended, among other things, the incentives for obtaining public contributions. The bonus is equal to 10% of the public contributions collected during the previous year and is ascertained and determined annually by the Authority by 31 October of each year, from 2025 to 2028. Distribution companies must provide the list of public contributions collected by 31 March of the year following the year to which the contribution refers. Bonuses are paid in three equal amounts, unless otherwise ordered and justified by the Authority at the time the economic items are determined, for reasons of liquidity or the overall impact on the tariff.
On 27 December 2023, ARERA published Resolution 616/2023/R/eel with which it approved the tariff regulation for electricity distribution and metering services for 2024-2027, as well as the relative integrated texts for distribution (TIT) and metering (TIME) and for the connection service (TIC). Also note that the TIT was integrated with provisions relative to criteria to recognise costs for companies subject to the ROSS criteria.
With Resolution 449/2020/R/eel of 10 November 2020, the algorithm for calculating the ΔL equalisation relating to the value of the difference between the effective losses and the standard losses starting from the year 2019 was modified; the percentage factor applied for equalisation purposes for commercial losses of electricity on the networks with obligation to connect third parties for the “centre” zone and for the LV voltage level was modified, going from 2% to 1.83%. Table 4 of the TIS was also amended by the same Resolution with effect from 1 January 2021.
On 21 December 2021, ARERA published DCO 602/2021/R/eel in which it proposed, for the 2022-2023 two-year period, the revision of the conventional percentage factors for commercial losses to be applied to distribution companies for equalisation purposes and the revision of the conventional percentage loss factors to be applied for settlement of the dispatching service to end customers as from 1 January 2023. Distribution companies submitted their comments on 31 January 2022.
This consultation procedure concluded with the publication of Resolution 117/2022/R/eel of 22 March 2022, with which the Authority set the conventional percentage factors related to commercial losses to be applied to electricity for equalisation purposes equal to 1.77% in the Centre zone for 2022, and 1.72% in the Centre zone for 2023. It also introduced a cap on the PAU price to be applied, equal to the arithmetic average of the average annual PAUs in 2016 – 2021.
With a specific application to be presented by the end of May 2022, the resolution provided for recognition of network losses attributable to non-recoverable fraudulent withdrawals that manifest with exceptional amounts compared to the levels recognised conventionally. The recognition was provided for exclusively in the case of a negative net equalisation balance on the three years 2019-2021 and will have a value at the most equal to what is necessary to reduce this balance to zero. In addition, with an application to be presented by May 2024, the same recognition was envisaged related to the 2022-2023 two-year period. The application related to the recognition of losses in the 2019-2021 three-year period was submitted by Areti via certified email on 31 May 2022.
On 7 February 2023, ARERA published Resolution 42/2023/R/eel, beginning the procedure to verify the existence of the right to recognition of non-recoverable fraudulent withdrawals claimed by areti, the amount of fraudulent withdrawals to recognise and the corresponding economic value. Following this resolution, in a certified email the Authority communicated the following investigations relative to the procedure:

- the issue involved in the request is accepted (thereby identifying a liability with respect to the company) and is equal to around € 1.0 million;
- the non-recoverable fraudulent withdrawals are recognised solely for cases of “occupied buildings” (138 GWh), and not recognised for cases of “routes at risk” (36 GWh) and “unknown” (7 GWh). In the context of future sessions to update balancing amounts, CSEA will recognise the stated amount for *a*reti and the relative annual updates to which the balancing amounts for 2019-2021 are subject.

Note that with Resolution 181/2023/R/eel of 4 May 2023, the Authority completed the procedure begun with resolution 42/2023/R/eel, authorising CSEA to recognise this amount for areti and the relative annual updates to which the balancing amounts for 2019-2021 are subject, in the context of future sessions to update balancing amounts.
On 25 July 2023, ARERA published resolution 336/2023/R/eel, beginning a procedure to adopt provisions to reform regulations for electric settlement, methods for determining procurement of network losses and the relative equalisation mechanisms, considering the innovations over time in relation to meter reading, the removal of the greater protection service and innovations in dispatching regulation. The reform is structured in phases, with the first actions focussed on going beyond the load profiling regulations and the role of residual user, at present assigned to Acquirente Unico as part of the same regulation, as well as the consequent optimisation of the relative disclosure and monitoring obligations falling to the various entities.
Also note that with Resolution 584/2023/R/eel of 12 December 2023, the Authority extended to 2024 the regulations on equalisation of network losses established pursuant to the TIV for 2022-2023, the conventional loss factors for equalisation purposes established in the TIV for 2023 and the conventional loss factors applied for 2023 to electricity issued and withdrawn pursuant to the TIS. With reference to marginal situations, the mechanism for restoration of losses was confirmed for 2024, with the application to be presented in May 2025 with reference to 2022-2024.

On 3 August 2023 consultation document 377/2023/R/eel was published, in which the Authority presented its initial guidelines on the elimination of load profiling regulations and procurement methods for “residual” energy. The deadline for submission of comments was 25 September 2023.
With resolution 712/22, effective April 2023, ARERA governed the issuing of reactive energy from MV/LV networks to the relevant grid (NTG), establishing amounts differentiated between homogeneous and non-homogeneous areas (€2/MVarth and € 1.44/MVarth).
Homogeneous areas mean notes on the relevant grid, featuring the same impact from reactive energy exchanges (issue/withdrawal).
The Authority published resolution 124/2023 on 28 August 2023, with which it adopted the list of electricity nodes on the relevant grid to which the higher amount is applied for issuing of reactive energy, confirming the application of the amounts for reactive energy issued effective 1 April 2023, with exemptions in the case that adequate offsetting tools are utilised.
On 27 December 2023, with Resolution 615/2023/R/eel, ARERA defined the criteria for tariff regulation for electricity transmission

and dispatching services for 2024-2027 (RTTE 6PRTE). A significant passage for areti SpA involves the issue of fees to be paid to Terna for the issuing of reactive energy in the NTG. In particular, the provision establishes that the metering systems on the MV side of the primary areti SpA substations be used until 31 December 2026 to determine reactive energy issued and withdrawn, de facto extending the provisions pursuant to resolution 591/2023/R/eel (12 December 2023) with reference to measuring reactive energy exchanges on high or very high voltage, based on specific grid and metering configurations.
In the new Transport Integrated Text, the ARERA has confirmed the mechanism of advance recognition on a two-monthly basis, of equalisation balances for revenue from the distribution service and transmission costs. With Determination 19/2020 of 13 November 2020, ARERA defined the operating methods of managing the general equalisation mechanisms, confirming the method of calculating the advances every two months.
Further impact on equalisation was linked to the fact-finding investigation launched with Resolution 58/2019/E/eel concerning the regulation of financial items relating to electricity destined for States included in Italian territory. The Authority, with Measure 491/2019/E/eel, ordered Areti to carry out – by 31 December 2019 – the actions necessary to properly define the dispatching point of export related to the electricity destined for dispatching points of export and to obtain the measurement data of the electricity sold.
On 20 December 2019, the company stated that it had complied with the requirements.
The Authority decided that the elements acquired constituted a condition for the launch of a proceeding aimed at ascertaining any breaches on the subject of settling the economic items related to the electricity destined for the dispatching point of export.
In June 2020, areti presented its commitments, which were revised in February 2022 in the light of the results communicated by CSEA and approved by ARERA with resolution 262/2021/E/eel. The relevant items will in any case be settled at the end of the penalty proceedings initiated with Determination 5/2020/eel.
On 5 April 2022, with Resolution 151/2022/S/eel, ARERA approved and published the proposal of commitments submitted by areti. The following phases will follow:

1. third parties could submit their comments by 7 May 2022;
2. within 30 days of the publication of any comments, areti could respond;
3. final approval of the commitments with resolution, which will also specify the terms for the settlement of the financial items and the start date of the monitoring.

With resolution 355/2022/S/eel of 27 July 2022, ARERA approved the commitments proposed by areti SpA in the context of the sanction proceedings for violations of settlement of economic items relative to electricity destined for Vatican City State.

Finally, with Resolution 576/2021/R/eel, Arera provided that for interconnection with the dispatching points of export:

- from 1 January 2022, only the variable components, expressed in c€/kWh, of the tariffs covering transport costs provided for in paragraph 15.1 of the TIT will be applied (currently, the fixed and variable components are both applied);
- from 1 April 2022, the imbalance price for non-enabled units (and no longer the DAM zonal price) will apply for the purpose of regulating actual imbalances);
- from 1 January 2023, uplift shall be applied to the energy actually withdrawn (currently not applied).

In the same measure, the Authority specifies that the entire band must no longer be used to define the dispatching points of export withdrawal schedule; the dispatching user must instead use its own best estimate of withdrawals. The delta between the value of the band and the programme must be treated as a programme imbalance and valued at PUN.

ARERA has confirmed the method of recognising the capital costs for low voltage electronic meters, for firms serving more than 100,000 points of delivery, based on criteria for determining the investments effectively made by the single firms and also retaining the measurement equalisation for the fifth regulatory cycle. The equalisation mechanism is intended to equalise the revenue from the comparison of the obligatory tariffs billed to end users and the revenue set in the reference tariff.
The tariffs hedging the measurement service are updated, as are those for the distribution service, using the price-cap mechanism for the part hedging the operating costs (with the goal of a 0.7% recovery of productivity) and with the deflater, variation in invested capital and rate of change of the volumes supplied for the part covering the invested capital and depreciation. The rate of remuneration of the measurement capital is the same as that for the distribution service.
Note that with Resolution no. 646/2016/R/eel of 10 November 2016, ARERA illustrated the methods for defining and awarding costs related to second generation (2G) smart metering systems for measuring low voltage electricity. On 8 March 2017, it published a release in which it updated the evaluation of the plan for entry into service of the 2G smart metering system prepared by e-distribuzione SpA. In order to present ARERA with an illustrative report on the commissioning plan of the 2G smart metering system, the company defined a project for the development of this system with the aim of replacing the current system of electronic meters.
Starting in 2017, ARERA established in the same resolution that for the annual updating of the return on invested capital and depreciation concerning effective low-voltage metering points, for each distribution firm, the maximum gross investment value recognisable per meter installed is 105% of the corresponding gross investment value per meter for the investments that came into operation in 2015.
On 20 March 2019, with the consultation document 100/2019/R/eel, the Authority introduced an update for the three-year period 2020-2022 of the provisions on the determination and recognition of costs relating to second generation (2G) smart metering systems. In particular, the proposals set out in the consultation document include:

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

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

1. The Authority set 2022 as the deadline for the start of the plans for the commissioning of 2G systems and established that the mass replacement phase for the meters must be completed by 2026 (with a target of 95% of the meters included in the plan). Furthermore, in order to avoid the "two-speed country" risk, a new method of calculating the "conventional plan" was introduced for companies that have not yet submitted their rollout plan.
2. Starting from the 4th year of each PMS2, penalties are introduced for failure to meet expected performance levels, with annual and multi-annual ceilings on penalties for greater protection of service users.
3. The regulatory useful life of the asset categories relating to the low-voltage electricity metering service to be applied to investments in 2G smart metering systems is 15 years.
4. The remuneration and depreciation of the invested capital are determined according to a fixed rate depreciation schedule. Depreciation schedule instalments are calculated as deferred annual instalments, considering a return time horizon consistent with the regulatory useful life.

On 20 September 2019, areti sent the Authority the request for admission to the recognition of investments under the specific regime together with the plan for the commissioning of the 2G smart metering system and the other documents required by Resolution no. 306/2019/R/eel. The documentation was made available on 23 September 2019 on the Areti website, and on 21 October a public session was held to present the Plan, during which the Company responded to the comments made by participants. On 20 December the Authority requested detailed information on the actual operating capital costs of Measure 1G and 2G set out in PMS2.
Resolution 213/2020/R/eel, which follows 177/2020/R/eel accompanied by CD 178/2020, provides for transitional amendments for the year 2020 to some of the directives for second generation (2G) smart metering systems for measuring low voltage electricity.

In particular, in consideration of the COVID-19 health emergency and its impacts on the replacement of meters, the Authority expressed the orientation to:

- waive – at least for 2020 – the upgrade criterion at the level of the Municipality or other significant territory:
- establish that the next PDFMs, which must have a maximum quarterly frequency, can only have indicative value as long as the emergency persists. Moreover, each PDFM must be published 15 days in advance of the beginning of the month in which mass replacements of meters are planned;
- suspend – at least for 2020 – the provisions on penalties for failure to achieve at least 95% of the progress (cumulative) envisaged by PMS2 from the second year of the plan (90% for the first year);
- suspend – for the year 2020 only – the application of the IQI (Information Quality Incentive) matrix, which defines the value of the incentives to be paid to companies for the different combinations of actual expenditures incurred and planned, since the comparison between actual costs and expected costs may be subject to factors that affect the comparison.

On 28 July 2020, with Resolution 293/2020/R/eel, the Authority approved the plan of commissioning of the 2G smart metering systems presented by Areti and determined the related conventional commissioning plan and the expenses envisaged for the plan for the purposes of recognition of the costs of capital.

ARERA also considers it appropriate to offer distribution companies the option of proposing the updating of their upgrade plan during 2021 to adjust for the effects of the epidemiological emergency. It is noted that on 31 March 2021, in consideration of the ongoing health emergency and need to further investigate the relevant impact, Areti announced its intention to collect additional information to assess whether it should update its PMS2 by 15 June 2021.
On 14 June 2021, Areti notified Arera that it had promptly intervened, by adapting its processes and procedures so as to absorb the operational impact that had arisen during the health emergency period, and it that it had consequently not identified any effects that would require the plan to be revised. It is noted nonetheless that certain risks are present, including but not limited to the possible increase in asset costs due to raw materials becoming more expensive or the potential shortages in supplies due to the widespread slowdown in production worldwide. In this regard, note that the DSOs, through Utilitalia, are submitting to the Authority a number of requests intended to zero the bonus and penalty mechanisms for the years impacted by the scarcity of 2G meter supplies.
With Resolution 349/2021/R/eel of 3 August 2021, the Authority provided that, for the year 2021, in the case companies that had started PMS2 in previous years, the 2G meter limit below which penalties apply is 90% instead of 95% of the cumulative number of 2G meters provided for by PMS2 as at 31 December 2021. The Authority also resolved that for 2021, the criterion of implementation at municipal or other significantly relevant territorial level shall not apply.
On 23 March 2022, Arera sent to Areti, via certified email, communication of the preliminary findings related to the effective capital cost of the investments in 2G smart metering systems incurred in 2020.
On 28 June 2022, the Authority published DCO 284/2022/R/eel which outlined the guidelines relating to the introduction of transitional changes to the provisions of the 2G Directives for 2022. These transitional changes were deemed necessary following the indirect effects of the COVID-19 pandemic which led to a severe lack of semiconductors at global level and which in turn, at the start of 2022, created significant limitations on the availability of 2G meters that had already been ordered by distribution companies. Interested parties are invited to send their comments to the Authority by 29 July 2022.
With Resolution 280/2022/R/eel of 28 June 2022, Arera initiated proceedings to update the guidelines for the recognition of second generation (2G) smart metering system costs applicable from 2023, currently defined by Resolution 306/2019/R/eel, providing for the conclusion of such proceedings by 31 December 2022.
On 28 June 2022, the Authority published DCO 284/2022/R/eel outlining its guidelines relating to the introduction of transitional changes to the provisions of the 2G Directives for 2022. These transitional changes were deemed necessary following indirect effects of the COVID-19 pandemic which led to a severe lack of semiconductors at global level, which in turn, at the start of 2022, created significant limitations on the availability of 2G meters that had already been ordered by distribution companies. In this DCO, ARERA also discussed the possible transitional derogation of the "operational" criteria for significantly relevant areas, examined possible transitional changes involving the preparation of detailed plans for the mass stage, discussed application methods for the Information Quality Incentive (IQI) matrices, illustrated possible transitional changes to the penalty rules for lack of progress in the operational

plan and examined completion schedules for the mass stage of 2G smart metering operations. The interested DSOs were asked to send their comments by 29 July 2022.
Note that on 27 July 2022, the Authority published consultation document 360/2022/R/eel, illustrating guidelines relative to the extension of provisions on the implementation of second generation low voltage electricity smart metering systems. The deadline for submission of comments was 26 September 2022.
On 22 November 2022, following the consultation period begun with DCO 284/2022/R/eel, ARERA published resolution 601/2022/R/eel in which it introduced transitional changes to certain provisions for the second generation (2G) smart metering systems for low voltage electricity. In particular, it establishes: for 2022 and the first half of 2023, non-application of the "operational" criteria in any significantly relevant area; for 2022, provisions pursuant to article 18, paragraphs 1 and 3 of Annex A to resolution 306/2019/R/EEL are suspended, relative to penalties for delays with respect to the forecasts for implementing the service and limited non-compliance with expected performance levels; the effects deriving from the planned and actual numbers of 2G metres for 2022 were sterilised. On 28 March 2023, Arera sent the preliminary findings related to the effective capital cost of the investments in 2G smart metering systems incurred in 2021.
Finally, with resolution 724/2022/R/eel, the Authority updated the 2G Directives for 2023-2025 establishing i) that annual accounting methods for physical progress be made systematic, with time frames similar to the accounting already established for economic and performance progress, ii) that the monitoring period for 2G smart metering system performance be extended to 4 years, activating penalties only as of 1 January of the fifth year of PMS2, in light of the problems which arose relative to the COVID-19 health emergency and the significant limitations on availability of 2G components, iii) an obligation to promptly replace 1G metres with 2G metres for activation requests for collective self-consumption, and iv) a premium mechanism for accelerating PMS2 as an effect of public contributions.
The "Integrated Text on provisions of the Authority on the economic conditions for providing connection services (TIC)", Annex C to Resolution 568/2019//R/eel, governs the economic terms for the provision of connection services and specific services (transfers of network equipment requested by end users, contract transfers, disconnections, etc.) to passive users, essentially in line with the previous regulatory period.
The regulatory changes that have taken place since 1 January 2016 allow the distributor to affirm that the right to remuneration for invested capital arises, from an accounting point of view, at the same time as investments are made and the depreciation process is initiated in compliance with the accruals concept and the principle of correlation of costs and revenues. For this purpose, the remuneration of the investments (including of the related depreciation and amortisation) was calculated and recognised in the energy margin at the same time as they were made (so-called Regulatory Accounting).

Resolution 119/2022/R/eel of 22 March 2022 established the mechanism to reimburse electricity distributors for receivables not collected and not otherwise recoverable in relation to general system charges and network charges, outlining their conditions for access, quantification criteria of the eligible receivables, criteria for their recognition, operating methods as well as time frames for submitting applications and settlement of the amounts by CSEA. Furthermore, this measure repealed resolution 50/2018/R/eel of 1 February 2018.

Furthermore, note that with Resolution 35/2022/R/eel of 31 January 2022, ARERA arranged for the cancellation of the rates for general electricity system charges for Q1 2022 for all types of users, implementing the Supports *ter* Law Decree.
On 22 November 2022, the Authority published resolution 599/2022/E/com which began an audit campaign with reference to documents on the topic of accounting separation and declared investments for a sample of regulated companies in the electricity distribution and natural gas distribution and transport sectors for the years 2018-2021.
Note also the publication of DCO 615/2021/R/com of 23 December 2021, in which the Authority illustrates its thinking behind the main lines of action of the ROSS-BASE solution, namely the focus on total expenditure, overcoming the current cost recognition system, which considers operating costs and investments separately, in favour of an integrated approach that gives operators responsibility. In particular, the new integrated approach focuses on the following aspects: realistic forecasts and development plans, based on the future and actual needs of service customers; incentives to improve performance levels, in terms of efficiency, cost-effectiveness and quality of service; removal of any regulatory barriers to the development of innovative solutions. ARERA does not yet go into detail on the regulatory mechanisms that must be developed and which will come into force in 2024 for the electricity distribution and metering service, but it does intend to obtain an initial assessment from operators, end customers and other participants. Comments were sent by 31 January 2022.
On 12 July 2022, the Authority published DCO 317/2022/R/com, offering further clarifications and observations on the scope of application for the ROSS approach and the criteria used to determine the historic cost recognised under the ROSS BASE approach. Comments were sent by 14 September 2022.
On 25 October 2022, ARERA published resolution 527/2022/R/com, beginning a procedure to define the adjustment criteria based on the ROSS-complete model. By 31 December 2023 a framework resolution will be published, containing the general criteria for ROSS Complete adjustments and in 2024 specific sector provisions will be published for the various regulated services, which will contain methods and objectives for experiments.
In DCO 655/2022/R/com, the Authority published its final guidelines on the criteria for determining the cost recognised under the ROSS-base approach and a first draft of the TIROSS (Consolidated regulatory law on spending and service objectives for regulated infrastructure services in the electricity and gas sectors) for 2024-2031: the duration of the regulations contained in TIROSS is 8 years, while the duration of the regulatory period for each regulated service is 4 years. The DCO provides additional indications relative to determining the spending to be included in tariff recognition, on determining total efficiency recoveries and the treatment of capital spending existing as of the cut-off date. Distribution companies can submit their comments until 23 January 2023.
On 18 April 2013, with Resolution 163/2023/R/com, the Authority published the Consolidated law on general criteria and standards for regulating spending and service objectives for 2024-2031 (TIROSS 2024-2031), and approved Part I, containing shared provisions, as well as part II, dedicated to ROSS-base. This Resolution also confirmed the guidance anticipated in DCO 655/2022/R/com, postponing the definition of specific parameters for future specific provisions relative to each regulated infrastructure service. Subsequently, on 18 May 2023, ARERA sent to the main DSOs, Snam and Terna, a request for information, specifically simplified economic, equity and financial projections for the purposes of reg-

ulating spending and service objectives (ROSS), to determine future capitalisation rates, the X-Factor and the Z-Factor for the First ROSS Regulatory Period. This information was to be provided for 2023-2027.
With resolution 165/2023 of 18 April 2023, the Authority resolved to begin a procedure to establish provisions for infrastructure regulation with reference to electricity distribution and metering services for regulation period 2024-2027. This procedure will end by 31 December 2023, relative to general aspects, with application for the entire period from 2024-2027, and by 31 December 2027 with regards to specific application aspects, for example preparation of application criteria for the full ROSS regulation and the introduction or updating of output-based regulatory mechanisms.
On 3 August 2023, the Authority published consultation document 381/2023/R/com in which it presented guidelines on the methods for applying the ROSS-base criteria, for natural gas transport and transmission services and for electricity distribution and metering, applicable as of 2024. The document outlined the Authority's proposals relative to certain aspects not yet defined in resolution 163/2023 approving the TIROSS, in any case postponing to subsequent consultation documents and working groups the aspects linked to cost reporting and monitoring and to analysis of economic/financial returns and the "financeability" of companies. Interested parties are invited to send their comments and proposals to the Authority by 21 September 2023.
Following the consultation, on 2 November 2023 ARERA published Resolution 497/2023/R/com in which it defined the application criteria governing spending and service objectives for natural gas transport and electricity transmission, distribution and metering services. Among many changes, the Authority ordered that the baseline for operating costs in 2024 is equal to the 2022 effective operating costs (COE), appropriately revalued for 2023 and 2024, based on the inflation rates published in resolution 616/2023, respectively equal to 6% and 1.9%. Efficiency recoveries achieved in the 5th regulation period were left to the distribution companies in the four subsequent years, with gradually declining rates (50% the first year, 37.5% the second, 25% the third and 12.5% the fourth).
Efficiencies in the new regulatory period are instead left to the DSO based on the incentive scheme selected (SBP low potential or SAP high potential). Capital costs incurred through 2023 (cut-off) are managed with the previous criteria (amortisation/depreciation in year n-2, capital in year n-1); capital costs after the cut-off year are managed using ROSS logic (amortisation/depreciation and capital at year n-1). Total costs incurred by the company are divided between the Slow money portion (opex) and the Fast money portion (capex) based on a capitalisation rate defined by ARERA.
On 29 November 2023, ARERA requested the information needed to determine the capitalisation rate, the baseline for 2024 operating costs, presentation of the application for the Z-factor and the incentive selected (SBP v.s SAP). On 22 December 2023, in a certified email, areti sent the Authority the requested information, deciding not to present the application to activate the Z-factor, as incremental costs associated with the energy transition were not planned for 2024, and opting for the low-potential scheme (x-factor of zero and efficiencies retained at 100% in the first year and 50% in the three subsequent years).

The Italian Waste Management market

The current situation of production and treatment capacity for waste in the traditional operational areas of the Acea Group and in the neighbouring areas shows a high "potential demand" for waste management (disposal in landfills, waste-to-energy, composting and biogas production, sludge and liquid waste treatment, recycling of mixed materials and production of Secondary Raw Materials). This is facilitated by a national regulatory framework that provides incentives and by the regulatory support of European directives on the recovery of materials and energy, as well as by the implementation of the European Union's policy guidelines on the circular economy (closing the loop), which are being implemented in Italy by virtue of a delegated law that has given the government the obligation to update environmental legislation adapting it to the new EU standards.
Opportunities for developing the sector are therefore highlighted, also facilitated by the availability of new technologies (for example in composting) and by possible forms of industrial integration with other operators.
Finally, the expansion of the potential for disposal/recovery of sewerage sludge – in the context of value added environmental services (sludge treatment, compost) – could lead to the completion of the integration with the Water business, in view of a complete management in-house of the entire supply chain.

WATER REGULATION

Among the main regulatory changes relative to the first half of 2023, specifically with reference to the water sector, the most important is the **2023 Budget Law** (Italian law 197 of 29 December 2022, published in the Official Journal 303 of 29 December 2022, SO no. 43), which took effect on 1 January 2023. In particular, paragraphs 519-520 involve **financing of the Peschiera water system**. Paragraph 519, to improve water supply for the metropolitan city of Rome, authorises total spending of 700 million (50 million 2023 and 2024 and 100 million in the years from 2025 to 2030), to create the "new upper section of the Peschiera aqueduct, from the sources to the Salisano Plant", as part of the project to secure and modernise the Peschiera water system (annex IV, no. 8 to Decree Law 77/2021). Paragraph 520 delegates to an MIT decree, to be adopted in concert with the MEF, by April 2023, but not yet issued, the identification of projects to finance with the resources established in paragraph 519, as well as the methods for disbursement and cases for revoking the resources, through presentation of the relevant documentation by the extraordinary commissioner.
Another important change is the publication, in the Official Journal 55 of 6 March 2023, of **Legislative Decree 18/2023**, "Implementing Directive (EU) 2020/2184 of the European Parliament and Council of 16 December 2020, concerning the **quality of water intended for human consumption**." The date of entry into force for this provision is 21 March 2023, however with different time frames for the various actions. The new regulation is not limited merely to the quality of potable water and monitoring of the same, but also includes other aspects such as water loss, water access, user information and additionally contains provisions on materials in contact with water, reagents and filtering materials.
With reference to water loss, ARERA must prepare the data acquired from managers, in line with the provisions of the technical quality regulation, and communicate the national average to the European Commission by 12 January 2026; if the average identified as a threshold by the Commission is exceeded, an action plan must be established with the relative measures to reduce the national water loss rate, to be adopted through a prime ministerial decree.

The issue of water access is also worthy of note, which involves adoption by the Regions and Autonomous Provinces of measures needed to maintain and improve access to water intended for human consumption, in particular for vulnerable and marginalised groups, promoting the use of tap water. No less important are new provisions regarding public information, already introduced in the regulation associated with resolution ARERA 609/2021/R/idr.
Also note that in Official Journal General Series, no. 59 of 10 March 2023, the MEF Decree of 31 December 2022 was published, containing general criteria for the Regions to determine **concession fees for public water utilities**.
The provision serves the goal of ensuring standard regulations throughout the country, to that end establishing general criteria for the Regions to determine concession fees for public water utilities, taking into account environmental costs and costs for the resource and pollution, contributing to achieving the milestone in the NRRP, M2C4-2 – Reform 4.2: Measures to guarantee full management capacity for integrated water services.
Another provision of interest during the reference period is Decree Law 39 of 14 April 2023, converted with Law 68/2023 (Official Journal 136 of 13 June 2023), containing urgent provisions to combat water scarcity and strengthen and adapt water infrastructure (the **Drought Decree Law**). The various measures include the establishment of a Steering Committee for the water crisis, chaired by the Prime Minister, with the task of guiding, coordinating and monitoring, and also responsible for identifying works and projects to be urgently implemented to deal with the water crisis in the short-term. As indicated in a Prime Ministerial Press Release, in May the first meeting of the Steering Committee was held, during which priorities were established and requests coming from various areas began to be examined, with the initial projects for 5 regions already identified, including Lazio, with a total investment of € 102 million made available by MIT. The Drought Decree Law also calls for the appointment of an extraordinary commissioner, in office until 31 December 2023, extendable until 31 December 2024, responsible for the urgent implementation of the projects identified by the Steering Committee; to that end, Nicola Dell'Acqua was appointed by the Council of Ministers on 4 May 2023.
Finally, with reference to the EU, we note the reasoned opinion sent by Italy to the European Commission on 15 February, as part of the INFR 2018-2249 infraction procedure in relation to non-compliance with the Nitrates Directive (91/676/EEC), with an invitation to better protect the population and ecosystems of the country from pollution caused by nitrates used in agriculture. The opinion was preceded by two default notices: the first in November 2018, inviting the authorities to guarantee stability for the network used to monitor nitrates, to carry out a review, and to designate areas vulnerable to nitrates, adopting supplementary measures in various regions; in December 2020 a complementary letter was sent, which while recognising a certain level of progress, indicated worries with regards to certain violations in various regions in which the situation for subterranean waters polluted with nitrates is not improving or in which a worsening of the problem of eutrophication of surface waters has been seen. Italian authorities have two months in which to respond and adopt the necessary measures.
Also note, in June, Italy's referral to the European Court of Justice for improper implementation of Directive 91/271/ECC on treatment of urban waste water (case C-85/13, infraction procedure 2009/2034); in fact, according to the European Commission, of the 41 initial agglomerates in the case, 5 had still not been made compliant and the 2027 deadline established by Italy for resolution was not considered acceptable.

The main measures issued by ARERA during the reference period are analysed below.

ARERA and water services

With **resolution 51/2023/R/IDR**, in compliance with article 7, paragraph 2 of Legislative Decree 201/2022 (Restructuring of regulations for local public services of economic relevance), the Authority began the procedure to determine the new regulations for the basic content of calls for tenders intended to establish the basic structure for tenders to assign management of the integrated water service. The procedure is intended, among other things, to govern the criteria used to determine the starting amount for the tender, to formulate and evaluate bids (economic and technical) so that these are consistent with regulatory provisions on tariffs and quality. No progress has been seen in the procedure, which was originally set to be completed by 30 September 2023.
With reference to the social bonus, note the following provisions:

- resolution **13/2023/R/com**, with which the Authority updated the ISEE threshold values for access to the measure, consistent with that provided in Law 197 of 29 December 2022 (2023 Budget Law): in particular, as from 1 January 2023, the access threshold was updated to € 9,530 with 15,000 the maximum limit for families with fewer than four children (the maximum limit of € 20,000 remained unchanged for large families);
- Resolution **622/2023/R/com**, revising the recognition, update and verification methods used by the manager of the social bonus.

With **resolution 639/2023/R/idr** of 28 December 2023, the Authority defined the water tariff method for the fourth regulatory period 2024 – 2029 (MTI-4). The adoption of MTI-4 is part of the procedure begun with resolution 64/2023/R/idr (which also indicated the value of the average cost for the electricity supply sector for 2022, equal to € 0.2855/kWh) and was followed by two consultations (DCO 442/2023/R/idr and DCO 543/2023/R/idr). Again for MTI-4, the Authority confirmed the methodological approach adopted in the previous regulatory periods, with the aim of guaranteeing stability and continuity in the regulatory framework. Below are the aspects of greatest impact in the new method:

- extension of the regulatory period duration from four to six years, with two biennial updates of established tariffs (by 30 April 2026 and 30 April 2028) with a possible infra-period adjustment based on a justified request from the Area Governing Body (EGA) due to extraordinary circumstances;
- update of the parameters underlying the regulatory scheme matrix with a consequent increase in the maximum allowable values (primarily due to inflation) falling between 5.95% (Framework II, previously equal to 3.7%) and 9.95% (Framework VI, previously equal to 8.5%);
- financial and tax charges for the Integrated Water Service Operator: the Authority confirmed substantial alignment with the values for other regulated sectors, defining an overall value of 6.13% (4.8% in MTI-3);
- electricity costs: recognition within the tariff of the cost to acquire electricity incurred during the year (a-2), also valorising self-production and the operator's efforts to limit consumption without changing systems and scope; this value is to be seen as the maximum ceiling as a lower value can, in any case, be quantified, in order to at least partially anticipate the effects of the possible downward trend in the cost of electricity. At the time of adjustment, the Method envisages (with the exception of 2024 and 2025, for which the mechanism based on "average sector

cost" is confirmed) a reference benchmark relative to a theoretical acquisition mix (for 2026: 70% variable price and 30% fixed; for subsequent years, an update to the weights is envisaged if needed). MTI-4 includes a deductible of 15% in addition to the benchmark (after exceeding that value any additional costs are borne by the operator), while cost efficiencies are divided between the operator and system (50% sharing). In the adjustments (RCaltro component relative to recovery of differences between the constraint of revenue and outlays incurred), amounts relative to the full recovery of electricity costs incurred in 2022 are covered, conditionally;

- adjustments: confirming, in line with previous regulatory periods, the possibility that the EGA and other relevant entities may present applications to exceed the tariff limit, the Authority emphasises that this choice may also be motivated by the need to recover adjustments relative to previous years and already approved by the same relevant entity or the Authority, in order to support the completion of necessary infrastructure. When approving the application, ARERA carries out a specific investigation intended to ascertain, beyond the validity of the data supplied and the efficiency of the metering service, congruence between the size of previous adjustments allowed for recovery and the resources required to achieve the necessary infrastructure. To limit the amount of allowable costs postponed to future period, the possibility to recover adjustments in years after 2029 is, as a rule, limited to solely cases in which this deferral is motivated by the need to respect the established limit on annual growth in the tariff multiplier. Nonetheless, it is envisaged that the EGA may present, in agreement with the operator, an application for deferral accompanied by a plan which clearly specifies the years in which it intends to carry out the recovery. Also in the light of the results of validation activity, it was decided to postpone to a subsequent provision the definition of operating methods to recover differences between:
  - the data communicated with reference to odd years and the values identified after the fact with reference to volumes invoiced and electricity consumption;
  - operating costs and adjustments quantified for the establishment of tariffs relative to 2023 assuming a null inflation rate and that derived from the update of the rate, equal to 4.5%;
- adjustment of allowable operating costs: the Authority envisages the inclusion of additional costs relative to the start of the new regulations, the expansion of the scope of activities carried out (management of rainwater where the EGA exercises the ability to include this activity within the Integrated Water Service), as well as additional costs incurred to adjust to the new technical quality objectives;
- incentives to promote energy and environmental sustainability: these measures assign a bonus in the case objectives are achieved, identified with reference to two new indicators:
  - RIU – Portion of purified volumes which could be reused but are not destined for this purpose;
  - ENE – quantity of electricity acquired (for which a lower target -5% - has been adopted with reference to that initially proposed).

These mechanisms will be applied starting in 2025, considering, among other things, the situation of each operator in 2023.

In the context of a procedure carried out at the same time as the tariff method, with **resolution 637/2023/R/idr** the Authority adopted the update to the Integrated Water Service Technical Quality regulations (RQTI). The provision provides that, starting in 2024, quality objectives (both technical and contractual) will be consistently evaluated in a cumulative manner on a biennial basis.
Consequently, for the purposes of applying the bonus (penalty) factors, the level reached cumulatively for each of the macro-indicators applied at the end of odd years will be an element of assessment. Both for technical and contractual quality there is a ceiling for the bonus, equal to 15% of the value of the Guaranteed Revenue Constraint (GRC).
By 30 April of each year, and using the operating methods to be established in subsequent provisions, the EGA must send the Authority an archive containing the file for RQTI data collection and monitoring, with annexed support documentation. As of 2026 (and then biennially), this archive must be verified by a pool of EGAs, subsequently defined by the Authority, which includes the entity locally responsible for that considered. If the archive is not certified, even partially, this must be justified and can constitute cause for exclusion from the incentive mechanism for any macro-indicators interested. Additionally, the operator can be excluded from the tariff update in the case of delays or problems in achieving the prerequisites established in the RQTI.
Among the main changes in the update to technical quality, beyond determining a number of assessment classes which are the same for all macro-indicators (with adjustment of the various levels and associated objectives) and certain specifications for each macro-indicator, a new macro-indicator has been added - "M0 - Water Resilience", with which the Regulator has set the objective of evaluating the ability of the water system to handle the frequent stresses the water resource suffers, both in terms of the local area operated and at a higher levels. In fact, M0 consists of two simple indicators:

- \- M0a (Water resilience at the level of integrated water service management), defined as the ratio between integrated water service consumption, including network losses, and water availability for the same operator,
- \- M0b (Water resilience at a higher level) which identifies the ratio between consumption for all uses, including network losses, and overall water availability in the area considered.

Again in relation to regulation of technical and contractual quality, note resolutions **476/2023/R/Id**r and **477/2023/R/Idr** on the application of the incentive mechanism (final results) published downstream from the methodological note pursuant to resolution 303/2023/R/idr with which ARERA identified the initial results as well as the investigation process undertaken. The two provisions specify the bonuses and penalties applied to operators for 2020-2021. Overall, the Acea Group obtained bonuses for over € 40 million and penalties for just under € 7 million.

In relation to the exceptional weather events which occurred in May 2023 ARERA, with resolutions 216/2023/R/com, 267/2023/R/com, 304/2023/R/com, 390/2023/R/com and 565/R/com suspended payment of utility bills and payment notices for water, waste, electricity and gas until 31 October, implementing Decree Law 61/2023 (the "flood decree"). Additionally, provisions were included with respect to instalment payments of fees and the suspension of arrears cases, as well as an update to the UI1 tariff component, effective as of 1 July 2023, which is now equal to € 0.6/cubic metre.

With respect to consumer protection, we note in particular the publication of **Resolution 233/2023/E/com** of 30 May 2023. With this provision, the Authority established that, as of 30 June 2023, an obligatory settlement attempt is required also for the water sector as a condition for proceeding to legal action. Therefore, if an end user decides to take legal action, they must first attempt to resolve the dispute with the ARERA Conciliation Service or other bodies established for out of court dispute resolution. In this way the regulations of the Comprehensive Conciliation Law (TICO) were extended to the water sector, the law having already been in effect for the electricity and gas sectors since 1 January 2018. The resolution also establishes specific information requirements for managers affected by these new provisions.

Also in the first half of 2023, the Authority published the revision of its Annual Report on Conciliation Service Activities for 2022. The document indicates that conciliation requests received in 2022 totalled 24,339, of which 3,184 for the water sector and, of these, 71.3% relative to billing, 5.2% to metering, 5.1% contracts, 4.0% connections, labour, arrears and suspension, 1.3% contractual quality and 0.5% technical quality. The Regions with the highest number of requests are: Abruzzo, Lazio, Campania, Marche, Basilicata and Liguria. At the end of the conciliation procedure (for all regulated sectors) a satisfaction questionnaire was provided, completed by 8,781 customers; 96% of them said they were satisfied with the service received.

Finally, note:

- the elimination, effective 1 July 2023, of the UI4 balancing component to supply the Guarantee Fund for water works, established with resolution **239/2023/R/idr**. The component was introduced on 1 January 2020, in the amount of € 0.4/cubic metre, increasing the aqueduct, sewer and purification fees, and calling for a half-yearly update in relation to the requirements of the relative account held with the Cassa per i Servizi Energetici e Ambientali (CSEA);
- the resolution **598/2023/E/com,** which amends the Regulation for fine proceeding rules and procedural methods for assessing the commitments, expanding the terms of the procedure, calling for a meeting in the case of connected proceedings and specifically highlighting, in line with article 11 of Law 689/81, the particular negative economic conditions of the agent.

Another element which is surely of interest are the **Memos** which the Authority presented in relation to regulatory developments in the relevant sectors, as well as its Reports on monitoring carried out with reference to the restructuring of local integrated water service assets. Below are the relative provisions published in 2023. In particular, note the following.

- **Memo 106/2023/I/idr** provides the Authority's considerations on COM (2022) 540 (Framework for Community action in the field of water policy) and COM (2022) 541 (Urban wastewater treatment), guided by the EU's Senate Policy Commission. The document is intended to provide assistance with reference to the EUR directive proposals above, in particular COM (2022) 541, relative to which considerations and proposals are offered based on technical/economic assessments. More specifically, with reference to a series of actions, less stringent schedules are requested due to the significant impact foreseen in the current structure of the proposed directive. Additionally, adjustments are requested with regards to energy neutrality objectives for treatment plants.
- In **Memo 178/2023/I/idr** ARERA provides its contribution to the already cited Decree Law 39 of 14 April 2023, containing "Urgent provisions to combat water scarcity and strengthen and adapt water infrastructure", for the purposes of its conversion into law. The aspects highlighted by the Authority include the need for projects dealing with the water crisis to be included in the National Plan for Infrastructure Interventions and Safety in the Water Sector" (paragraph 516, Law 205/2017), for the purposes of more effective coordination of the same. ARERA also proposed the adoption of incentive mechanisms to promote efficiency and improved quality, also for uses other than civil, while with regards to reuse of purified waste water, measures are proposed with the aim of simplifying authorisation procedures.
- In **Memo 232/2023/I/com** the Authority makes reference to the VIII Environment, Territory and Public Work and X Productive Activity, Commerce and Tourism Commissions of the Chamber of Deputies for energy poverty, the disbursement of social bonuses and the waste tariff system. Specifically with regards to the water social bonus, it is noted that at present the preliminary actions allowing for automatic disbursement have been completed for around 80% of the domestic population.
- In its **sixteenth interim report (Resolution 34/2023/I/idr)** prepared pursuant to article 172, paragraph 3-bis of Legislative Decree 152/2006, the Authority updated the informational framework regarding restructuring of local assets in the water sector. The framework emerging highlights the definitive completion of processes for local entities to adhere to the relative government entities in all the areas of the country and the consolidation of the process to rationalise the number of ATOs (Optimal Territorial Areas), currently totalling 62, the need to complete the process begun to achieve full implementation in certain local areas and the start, by certain Regions, of the use of substitute powers, based on the legislative changes recently introduced in Decree Law 115/22. The push made by the Region of Lazio in exercising its substitute powers to definitively transfer the water service to the relative single operators in the various Municipalities can be seen in this light. Also worthy of note is the need to complete the assignment of the integrated water service throughout Italy, and to rapidly conclude the process of rationalising and consolidating the array of managers, in line with current regulatory provisions.
- The **seventeenth interim report (resolution 323/2023/I/idr)** of July 2023 does not indicate any significant changes with respect to that noted in previous analysis, with the exception of additional progress with respect to the assignment of the IWS in Campania (in April, the assignment of operations in the Irpino District to Alto Calore Servizi) and in the Sicilian ATOs of Catania and Ragusa. However, in the Campania Regional ATO, the Sanniti and Napoli Nord Districts have not yet been assigned (for the former the establishment of a mixed company Sannio Acque is planned, while for the latter in house operation is expected, through the to be established APPN, although this has recently been contested by the Antitrust Authority). In Sicily, the assignments in the Messina, Trapani and Syracuse ATIs still need to be finalised. With a persistent Water Service Divide, the expectation of the new company Acque del Sud Spa, which from 1 January 2024 will take over for the eliminated entity for the development of irrigation and transformation in Puglia and Lucania (EIPLI), may contribute to the effective restructuring of the water supply chain and the configuration of the needed economic and environmental sustainability structural aspects for upstream activity in Southern Italy. Additionally, also given that the Authority was given the task of defining the water tariff to be applied to users of Acque del Sud SpA, it should be emphasised that "usage sectors other than civil may benefit from the application of rules - specifically modelled around those developed by the Authority for the aqueduct service - intended to incentivise performance improvement, identifying specific targets to limit waste in relation to the use of the water resource, and

consequent identification of required actions". Finally, the Authority identified the need, in consideration of the expiration of the Acquedotto Pugliese concession (31 December 2025), "to define in the near future a lasting operational structure, respecting, among other things, the regulatory provisions with regards to transfer procedures".

ELECTRICAL REGULATION

Biennial limitation

Article 1, paragraphs 4-10 of the 2018 Budget Law, introduced a two-year limitation on electricity supply contracts, initially establishing that end users were not eligible for this in the case of the failed or erroneous recording of consumption data, attributable to users. Paragraph 295 of Article 1 of the 2020 Budget Law eliminated this specification, establishing that the biennial limitation was also applicable in the case of confirmed responsibility on the part of the customer, and introducing objective liability in respect of the electricity chain operator, and in particular, the distributor, in its capacity as metering service operator, even without any liability or inefficiency in terms of its service provision. With Resolution 184/2020/R/com, ARERA transposed the provisions of the 2020 Budget Law with reference to the case of exclusion from the biennial limitation in cases of failed or erroneous recording of the electricity metering data, arising from the confirmed responsibility of the end customer. On 27 July 2020, Areti and Acea Energia submitted an appeal to the Regional Administrative Court to have Resolution 184/2020/R/com cancelled. The appeal was accepted with the consequent cancellation of the resolution on the basis that the interpretation of the 2020 Budget Law had only referred to the duration of the limitation (two years instead of five years), without excluding the applicability of the general civil code regulations regarding limitation.

With Resolution 603/2021, the Authority amended Resolution 569/2018/R/com on the billing of consumption dating back more than two years as a result of DCO 457/21, in order to comply with 14 June 2021 Rulings 1441, 1444 and 1449 of the Lombardy Regional Administrative Court. With this resolution, the Authority confirmed the distributor's obligation to notify the seller, via certified email (PEC) – contemporaneously with the metering or adjustment data referring to consumption dating back to a period more than two years back – the indication of the presumed existence or non-existence of causes hindering the accrual of the limitation period pursuant to the primary and general reference legislation. It also confirmed that the seller's information obligations vis-à-vis the end customer should be separated depending on whether or not there are any amounts on the invoice for which the limitation is contested. The Authority has also provided for a transitional phase, pending the implementation of the flows between the various entities in the chain and the IWT, which provides for the same information to be transmitted between the parties in a non-automated manner but with a defined time frame.

Following on from DCO 386/2021, the Authority published Resolution **604/2021/R/com**, which provides for:

- an annual compensation mechanism for the greater protection operator or the dispatching user associated with a withdrawal point, making it possible also to recover in the successive annual session any amounts not recovered in the reference annual session;
- a mechanism to make distribution companies liable, whereby from 2023 all electricity distribution companies will be required to pay a penalty to CSEA each year for recalculations invoiced in the previous year due to non-collection of actual readings or adjustments of actual metering amounts previously utilised, for the portion prior to 24 months of the date on which the data was made available.

Subsequently, with a precautionary ordinance, the Regional Administrative court suspended ARERA resolution 603/2021, limited to article 6.4 of the Annex to the same, that is the transitional regulations which require the distributor to respond within 7 days. With ordinance 4568/2022 of 13 October 2022, the Court of Bologna clarified that SME and large companies are excluded from the category of entities to which the biennial limitations apply for electricity and gas bills.

Note that the Authority published resolution 86/2023/C/com with which it decided to appeal to the Council of State against the judgements issued by the Lombardy Regional Administrative Court with reference to the cancellation of communication requirements imposed on distributors in relation to the biennial statute of limitations on utility bills pursuant to articles 5 ("Distributor communication obligations") and 6.4 ("Transitional norms") of Annex A to resolution 603/2021 and article 9 of resolution 604/2021. The Authority believes there is good reason to appeal the referenced Lombardy Regional Administrative Court judgements given that these are based on an erroneous interpretation of the relevant events and laws.

Measures to limit bill price increases

Following the projects implemented throughout 2022 to limit the effects of price increases in gas/electricity commodities, in the 2023 Budget Law the government ordered, for the first quarter of 2023:

- the elimination of general system charges for the electricity sector for all domestic customers and for non-domestic customers with available power up to 16.5 kW and for gas, for all users (ARERA resolution 735/2022/R/com);
- extension of the reduced 5% VAT for administration of thermal energy produced with methane, in execution of an energy service contract;
- expansion of the electricity and gas social bonuses, enlarging the range of beneficiaries by raising the ISEE threshold for access to € 15,000 (from the previous 12,000, with the threshold for large families remaining at € 20,000) and adjusting the value of the contribution in consideration of the ISEE value, with the aim of guaranteeing greater savings for the households suffering the greatest difficulties, by maximising the resources available (ARERA resolutions 13/2023/R/com and 23/2023/R/com);

The government also confirmed and strengthened the tax credit granted to non-energy intensive and non-gas intensive companies for spending on energy and gas during the first quarter of 2023, maintaining the requirement for the seller company to calculate the same if requested by the customer (ARERA resolution 76/2023/R/com).

The same Budget Law also established for 2023 a temporary 50% "solidarity contribution" with respect to 2022 income that exceeds by at least 10% the average of total income achieved between 2018-2021. It also establishes that the amount of this contribution cannot exceed 25% of shareholders' equity as of the reporting date in the year prior to that in effect at 1 January 2022. This tax on extra profit applies to companies that generate at least 75% of their revenue from business in the sectors of production and resales of

energy, gas and petroleum products.
Implementing that ordered in Decree Law 34/2023 (the Fifth Aid Decree), ARERA, in its subsequent resolution 134/2023/R/com, reactivated general system charges for all electricity customers, including domestic users, establishing the rates for the Asos and Arim tariff components at a level consistent with 2023 requirement forecasts for the relative management accounts. On the other hand, for the gas sector the elimination of system charges for all gas customers remained, but the value of the negative Ug2c element rate was reduced. Hence, in May 2023 this was at zero. ARERA also confirmed the reduction of VAT to 5% for management of heat, district heating and gas.
Relative to the social bonus, for the period falling between 1 April and 30 June 2023, application of supplementary social bonuses was confirmed (the "CCI" introduced in the last quarter of 2021), the amounts of which vary based on the different categories of social bonus recipients. Additionally, based on that established in the Decree Law of 30 March, from 1 April 2023 until 31 December 2023, the threshold for large families with 4 or more dependent children was raised to € 30,000 (implemented with resolution 194/2023/R/com).
Also, with resolution 153/2023/R/com, ARERA implemented the provisions of the Prime Ministerial Decree of 15 March 2023, which called for a one time contribution per withdrawal point for those receiving a bonus for physical hardship as of 31 December 2022, for electricity supplies with power levels of 3.5 kW or greater and consumption in the average (between 600 and 1200 kWh) and maximum range (over 1200 kWh).
The government also confirmed but reduced the tax credit granted to non-energy intensive and non-gas intensive companies for spending on energy and gas during the second quarter of 2023, maintaining the requirement for the seller company to calculate the same if requested by the customer (ARERA resolution 259/2023/R/com).
For the third quarter of 2023, implementing that envisaged in Decree Law 79 of 28 June 2023 (Sixth Aid Decree), ARERA confirmed the projects for the previous quarter. In particular, with resolution 297/2023/R/com the strengthening of the social bonus for large families was confirmed, an action accompanied by those relative to gas, reducing general charges to zero and reducing VAT to 5%.
The tax credit established for non-energy and non-gas intensive production activities was not confirmed.
All the measures established in the third quarter 2023 were confirmed by ARERA for the final period of the year. In particular, with resolution 429/2023/R/com, as established in the Utility Bill/ Energy Decree Law, ARERA introduced a new extraordinary contribution to heating costs for October, November and December 2023. This extraordinary contribution, which rises with the number of family members, regards heating costs for the last quarter of 2023.

Provisions in favour of groups impacted by the exceptional weather events starting on 1 May 2023

Following the exceptional weather events in May 2023 in Emilia-Romagna, ARERA urgently arranged, with resolution 216/2023/R/com, suspension of payment for invoices issued or to be issued with due dates from 1 May 2023 on and consequently regulations for suspension due to arrears, also in the case of arrears occurring prior to the same date of 1 May 2023.

With the subsequent resolution 267/2023/R/com, ARERA better specified that the period of suspension for users located in the impacted areas (annex 1 to Decree Law 61/23) is equal to 4 months, from 1 May 2023 to 31 August 2023, and called for automatic establishment of 12 instalment payments for these amounts.
In support of sellers, ARERA established an advance mechanism for the amounts with suspended payment; this mechanism can only be accessed in the case of demonstrated financial problems, or if the suspension involves users that account for over 3% of total sales with reference to the first 4 months of 2023.
With subsequent resolution 390/2023/R/com, ARERA called for the extension until 31 October 2023 of the suspension of the terms of payment in favour of those in Emilia-Romagna. In contrast to the previous suspension, automatically applied, to obtain the extension the end customer needed to make an explicit request.
With resolution 565/2023/R/com (integrated with resolution 10/2024/R/com) ARERA governed tariff subsidies to apply to consumption subject to suspension; customers must ask their vendor to apply the subsidies by 30 June 2024.

Provisions in favour of groups impacted by the exceptional weather events starting on 2 November 2023

Following the exceptional weather events in Tuscany starting on 2 November 2023, with resolution 519/2023/com, ARERA ordered the suspension of the terms of payment for invoices issued or to be issued with a due date of 2 November 2023 or later, without application of the suspension due to arrears rules.

Instalment schedules for invoices

Implementing that established in the Fourth Aid Decree Law, the Ministry of Environment and Energy Security and the Ministry of Business and Made in Italy issued a Ministerial Decree on instalment schedules for utility bills. This allows companies to request instalment schedules for amounts due for the energy component of electricity and natural gas utilised for reasons other than thermoelectric, in excess of the average amount paid, with equal consumption, during the reference period from 1 January to 31 December 2021, for consumption between 1 October 2022 and 31 March 2023, and invoiced by 30 September 2023.

Suspension of unilateral changes

In the Thousand Extensions Decree Law, the government extended from 30 April 2023 to 30 June 2023 the deadline for applying the provisions of article 3 of Decree Law 115/2022, which suspends the efficacy of contractual clauses allowing companies that supply electricity and natural gas to unilaterally modify general contract conditions with reference to defining prices. The provision also specifies that this suspension does not apply to contractual clauses that allow the company supplying electricity or natural gas to update the economic conditions in the contract upon expiration of the same, in compliance with the terms for prior notification established in the contract, and without prejudice to the counterparty's right to withdrawal.

Gradual protection service for micro-businesses

The Authority, with Resolution **208/2022/R/eel** defined the regulation of the Gradual Protection Service (GPS) for micro-busi-

nesses pursuant to Italian Law n° 124 of 4 August 2017 ("annual law for the market and competition") and the methods of assigning the same, in order to guarantee continuity of the supply to micro-businesses connected in low voltage that are without a contract at free market conditions starting from 1 January 2023.
The service involves:

- micro-businesses that fulfil cumulatively the following conditions:
  1. they have less than ten employees and an annual turnover of not more than € 2 million,
  2. they are holders of withdrawal points all connected in low voltage with contractually committed power of up to 15 kW;
- other final non-domestic customers different from the micro-businesses, in any case holders of withdrawal points all with contractually committed power of up to 15 kW.

The GPS is activated for the above customers which as of 1 January 2023 are not holders of a supply contract at free market conditions, including customers still supplied in greater protection. The first period of assignment of the GPS for micro-businesses has a duration of 4 years.
The structure of the economic conditions that will be applied to the customers is similar to that of the Gradual Protection Service for small businesses. The tender procedures will be performed according to the model of simultaneous iterative ascending auction, in which an auctioneer (Acquirente Unico) will be present and will indicate in each session and for each area (12 territorial areas) the current price (the current price is the price, expressed in euro cents/POD/year, announced in each session by the auctioneer, in exchange for which the active participants offer to provide the gradual protection service for micro-businesses in the territorial area). A maximum ceiling on the economic offer in €/MWh is provided for. This is differentiated for each territorial area, and will be made known at the same time as the results of the tender procedures, while a minimum limit is not provided for. In the case of persistent parity among several offers for a given territorial area, lots will be drawn electronically, preventing a single operator from obtaining by lot a plurality of territorial areas. The Authority ruled that each participant may be awarded a maximum number of 4 areas, corresponding to 35 % of the total number of territorial areas. If there are no bids in the auctions, Acquirente Unico will hold a remedial auction removing the ceiling of awardable areas. The greater protection provider will be required to take charge of the service in the event of default of the operator selected in the tender or in the event of a tender without participants.
The GPS providers are required to present to the Authority a report according to a standard model to demonstrate that they possess organisational resources and a corporate structure adequate for the purpose of providing the gradual protection service in the territorial areas assigned. This standard model was defined by Determination 2/2022-DMRT. The report must be periodically updated by 31 July 2023, 31 January 2024 and 31 January 2025.
The timings for making available to participants in the tender procedures all the information necessary for formulating the offer and for performing the tender procedures are:

- by 14 June: Acquirente Unico will make the information available to participants with provincial details necessary for formulating the offer;
- by 30 May: Acquirente Unico will publish on its website the Regulation for the performance of the auctions;
- beginning of September: the date of the auctions will be defined by AU in the Regulation so that a minimum interval of at least two and a half months will be guaranteed, with respect to the term within which the pre-procedure information is made available to participants (14 June).

As provided for in Annex B to Resolution 208/2022, on 30 May 2022 the Regulation and the related annexes governing the competitive procedures for assigning the gradual protection service for micro-businesses was published on Acquirente Unico's website.
By 10 June 2022 Acea Energia presented an application for participation and on 14 June 2022 Acquirente Unico made available the pre-procedure information.
Acquirente Unico noted its admission to the tender procedure by 8 July 2022. The auctions were to have been held from 12 to 16 September, but, following the hacker attack on AU's systems, the Authority was forced to postpone, holding them between 21 and 25 November 2022. With resolution 586/2022 published on 18 November 2022, ARERA postponed the activation date for the GPS for the micro enterprises to 1 April 2023, clarifying that, until 31 March 2023, micro enterprises will continue to be served under enhanced protection.
On 16 December, Acquirente Unico published the results of the tender procedure to identify the operators of the Gradual Protection Service for micro enterprises from 1 April 2023-31 March 2027; Acea Energia was awarded area no. 11, including Avellino, Barletta-Andria, Benevento, Brindisi, Trani, Foggia, Lecce, the municipality of Naples and Salerno.
Also note that the micro enterprises identified by the Municipality of Rome in area no. 8 were awarded to another supplier through a drawing of lots, in which Acea Energia participated.

Gradual Protection Service for non-vulnerable domestic customers

With resolution 362/2023/R/eel, as amended, the Authority adopted provisions for the regulation and assignment methods for the Gradual Protection Service which can be accessed by non-vulnerable domestic customers (hereafter, GPS for non-vulnerable domestic customers or GPS) without a supplier as of the date the Greater Protection Service is removed. The end of the aforementioned service was planned, pursuant to Law 124 of 4 August 2017, as amended, by 1 April 2024, as the operators who won the tenders to assign the service began operating the GPS.
Decree Law 181/2023 ("Energy Security Decree") postponed the auctions for the Gradual Protection Service for non-vulnerable domestic customers to 10 January 2024. ARERA, with resolution 580/2023, implemented that envisaged in article 14 of the Energy Security Decree Law, postponing the date on which the auctions were held to 10 January 2024. Based on this, Acquirente Unico published as quickly as possible the updated Tender Regulations with the new expiration dates.

In essence, resolution 362/2023/R/eel, as amended, establishes that:

- "vulnerable" domestic customers will remain in the greater protection service for a transitional period, postponing to subsequent Authority provisions actions functional to their removal from this category;
- the tender procedure will be carried out with a single turn-based closed envelope auction system, giving participants the possibility to indicate the maximum number of areas they commit to serving. A maximum limit is set for the assignment of areas to each participant, defined based on the number of customers served as at 30 June 2023, in addition to a 30% ceiling envisaged in the Ministerial Decree of 17 May 2023, to mitigate

the additional risk that an operator may be awarded a number of withdrawal points out of proportion to its initial customer base. Therefore, each participant can be awarded a maximum number of areas equal to the lesser of the value communicated by Acquirente Unico and 7, corresponding to 30% of the total number of areas in the auction. A cap on the price offered is envisaged, which is not revealed to the participants. No floor is established. In the case that there are combinations of areas which could potentially be assigned to two or more operators which give the same result in terms of the minimum price for providing the service, digital drawing of lots will be utilised to assign the areas to the relevant participants.

As provided for in Annex B to Resolution 362/2023, on 26 September 2023 the Regulation and the related annexes governing the competitive procedures for assigning the gradual protection service was published on Acquirente Unico's website. By 5 October 2023 Acea Energia presented an application for participation and on 9 October 2023 Acquirente Unico made available the pre-procedure information. One month prior to the auction, Acquirente Unico made available to tender procedure participants additional information that greater protection operators must send to the AU. This additional information refers to the number of withdrawal points held by non-vulnerable domestic customers served under greater protection in April 2023 which utilise (1) an automatic payment method, (2) the utility bill in digital format.

With reference to Greater Protection Operators:

- - during the period from September 2023 and June 2024, a separate page must be included with at least two utility bills, with the second sent to the customer between April and June 2024, with standardised text determined by the Authority, which differs for vulnerable and non-vulnerable customers;
- - in derogation of the Consolidated Law on Invoicing, the final bill must be sent within ten weeks of the supply ending.
- With resolution 576/2023, the Authority defined a system to verify update requirements - applying to greater protection operators - with reference to the data in the Official Central Registry (OCR), of the Integrated Information System Operator, relative to customers served, with possible penalties borne by the operators themselves as the entities responsible for the accuracy of this information, in the case that for each withdrawal point subject to transfer in the GPS, the data needed for invoicing and contacting the end customer in the OCR is different from that used by the greater protection operator after an adequate improvement process which must be carried out by these operators prior to activation of the GPS.
- Free market vendors, with reference solely to domestic end customers, must include:
- in all bills issued between December 2023 and June 2024, a text defined by the Authority on the rights of vulnerable customers and the conditions that apply to them, in the specific area reserved for statements from the Authority;
- starting from 1 January 2025, in at least one bill per year, a text defined by the Authority on the rights of vulnerable customers and the conditions that apply to them, in the specific area reserved for statements.

As previously announced in resolution 580/2023, in resolution 600/2023 "Revision of activation schedules for the gradual protection service of non-vulnerable domestic customers in the electricity sector pursuant to Law 124 of 4 August 2017, Amendments to the Authority's resolution 362/2023/R/eel and relative annexes A, B, C and D", the Authority revised the date for activation of the GPS, postponing it to 1 July 2024. This was due to the need:

- to ensure end customers have a sufficient period of time to inform themselves, with respect to price protection, through the specific informational campaigns which, pursuant to Decree Law 181/23, must be carried out by MASE, for a period not to exceed twelve months;
- to carry out preparatory activities for the GPS (which also include actions to implement the provisions in the cited Decree Law with reference to the automatic transfer of direct debit authorisations for bills issued by the GPS operator, to be completed by 31 May 2024).
- to limit as much as possible the period between the assignment and activation of the GPS, to contain changes between the known conditions at the time of participation in the tender procedures (in terms of non-vulnerable end customers in greater protection) and the effective conditions at the time the service is activated.

On the other hand, the date on which the service assignment period will end remained unchanged, on 31 March 2027, consistent with that established in the Ministerial Decree of 17 May 2023 which states that, as from 1 April 2027, the GPS will serve solely as the service of last resort for all small customers, such as small companies, micro enterprises and non-vulnerable domestic customers.

Identification of vulnerable customers in the electricity market

With resolution **383/2023/R/eel**, the Authority defined the methods for identifying vulnerable customers, who will not be involved in the auctions for the Gradual Protection Service.

In particular, by the end of each month, starting in September 2023, the IWS identifies as vulnerable:

a) end customers who receive a social bonus for economic problems during the current or previous year;
b) end customers who receive a social bonus for physical problems during the month in progress;
c) end customers who have a withdrawal point which cannot be disconnected;
d) end customers over 75 years old;

By 10 September 2023, the IWS made the information able to greater protection operators with reference to their customers and made the information available for consultation.

Provisions for strengthening the disclosure obligations of the commercial conduct code to the advantage of final customers in the retail market

On 30 June 2022, the Authority published **Resolution 289/2022/R/com** which provides for both the adjustment of the Commercial Conduct Code to the provisions of Italian Legislative Decree 210/2021 for supplies of electricity on the subject of contractual rights of final customers and the monthly updating of the spending estimate of offers at variable price and of the protection services present in the Comparability Sheets for supplies of electricity and natural gas. The provisions will come into force on 1 October 2022.

Specifically:

- with reference to art. 5, paragraph 6, of Italian Legislative Decree 210/21 on the subject of methods for communicating withdrawal on the part of the final customer, not amend the regulation owing to the compliance of the said regulation with the aforesaid provisions;

- with reference to the provisions of article 5, paragraph 8, of Italian Legislative Decree 210/21, supplement the supply contract and the Summary Sheet, in the part related to the methods and terms for payment of the bills, introducing the reference to the current legislation so as to make explicit and transparent the information for the final customer in relation also to any charges connected with a chosen method of payment observing the criteria of the primary legislation;
- with reference to the provisions of article 5, paragraph 11, of Italian Legislative Decree 210/21 supplement the content of the section "Complaints, dispute resolution and the consumer's rights " in the "Other information" box of the Summary Sheet adding the information on the rights connected with the universal public service obligations of electricity sellers;
- with reference to the provisions of article 7, paragraph 5, of Italian Legislative Decree 210/21, on the subject of informing the final customer of the possibility for electricity sellers to impose on final customers the payment of a sum of money in the case of early withdrawal from a temporary or fixed-price electricity supply contract observing the application criteria provided for in Italian Legislative Decree 210/21 itself, provide further details on the subject, in the light of the contrary observations received from the consumers' associations that expressed the need to provide final customers with an informative framework as transparent, clear and comprehensible as possible on the option for the seller to demand payment of a sum of money in the case of early withdrawal from a temporary or fixed-price electricity supply contract and the related criteria;
- with reference to the change in the calculation of the annual spending estimate of offers at variable price, including protection services, on the Offers Portal, confirm the monthly and no longer quarterly update of the forward indices. In order to guarantee the maximum consistency between the Authority's Offers Portal and the informative material delivered by sellers to final customers at the pre-contractual stage provide for a monthly frequency of updating the annual spending estimate of the protection services. On this point ARERA accepted partially the operators' observations providing for a term of 7 working days instead of the 5 working days originally suggested from the publication of the said estimate for updating the Comparability Sheets to be delivered to final customers.

Reactive energy

During 2022, ARERA completed the reform of tariff regulations for reactive energy, calling for application of the fees for reactive energy issued in the F3 band as of 1 April 2023; the introduction of this fee, initially established in 2022 (resolution **568/2019/R/eel**), is intended to improve the efficiency of the electricity system. With resolution **232/2022/R/eel** ARERA therefore created regulations for this new fee for non-domestic LV end users with power exceeding 16.5 kW and for non-domestic MV end users, as well as interconnections between MV grids and interconnections between LV grids. ARERA also established, for sellers and distributors, a series of initiatives intended to inform end users of the fee to stimulate the technical actions needed to mitigate the phenomenon of reactive energy issued.
In resolution **712/2022/R/eel** ARERA called for the introduction of the fee for issuing of reactive energy for HV and extra-high voltage, establishing a "base" fee for reactive energy issued and a supplementary fee borne by only those entities in a homogeneous area, while also reducing to 33% (from the prior 50%) the limit ratio between reactive and active energy for excessive withdrawals.
ARERA's decision to apply a differentiated fee is the consequence of additional research requested from Terna and HV and EXV grid distributors, who had noted non-homogeneous impacts on the national electricity grid in the light of which, in order to not penalise all customers and distributors by applying uniform fees, ARERA held it better to differentiate between the "base" fee to be applied to the entire grid and the higher fee to apply to the "homogeneous areas", characterised by greater impacts from reactive energy exchanges on grid voltage and the consequent costs to control the voltage. Finally, in its subsequent resolution **124/2023/R/eel**, ARERA adopted a list of electrical nodes on the relevant grid in the homogeneous areas, for the purposes of applying the increased fees for reactive energy issued.

Network losses

With Resolution 449/2020/R/eel the Authority amended the regulation on network losses for the three years 2019-2021:

- reducing the commercial loss factor recognised in LV (1.83% for areti) and, consequently, the percentage of standard loss to be applied to withdrawals of LV final customers which, only for 2021, goes from 10.4% to 10.2%;
- awarding the DSOs, for the three years 2019-2021, an equalisation amount equal to the lower between the value obtained counting the energy lost with the selling price to higher protection providers (PAU) differentiated by month and by band and that obtained from the annual average PAU;
- it does not introduce the process of ensuring greater efficiency of commercial losses for DSOs;
- it introduces a mechanism for recognising fraudulent non-recoverable withdrawals based on requests from the companies, to be presented in 2022 with reference to 2019-2021, after verification of the existence of specific requirements, including having an overall net result for equalisation during 2019-2021 to be paid by the company. This amount represents the maximum amount that can be recognised to the DSO if the request is accepted by ARERA.

On 31 May 2022 Areti presented to the Authority an application for recognition of the 2019-2021 network losses attributable to non-recoverable fraudulent withdrawals, under the terms of art. 31 of the TIV.
Subsequently, the Authority published resolution 42/2023, initiating the procedure to verify the existence of the right to recognition of non-recoverable fraudulent withdrawals for 2019-2021. With resolution 181/2023/R/eel, the Authority completed the procedure begun with resolution 42/2023/R/eel to quantify and recognise for areti "non-recoverable" fraudulent withdrawals identified, for 2019-2021, of an exceptional amount with respect to the levels conventionally identified in the context of balancing grid loss. CSEA will need to pay areti the amount of € 1,139,448 in the first useful balancing session, without prejudice to the possibility of updates in the 5 subsequent years due to adjustments made to the metering figures.
The Authority published **resolution 117/2022/R/eel**, which fine-tuned the regulations for adjusting electricity losses on transmission and distribution grids for 2022-2023, confirming the desire anticipated in DCO 602/2021/221 of establishing a process to improve the efficiency of commercial losses but, however, making them more precautionary, with a 4% reduction for 2022 and 2023, bringing the percentages to:

- 1.77% in the Centre zone for 2022;

- 1.72% in the Centre zone for 2023.

A price control mechanism is introduced; this is to be used to determine the loss delta in each of the two years and, for only 2022, it provides for a guarantee clause to protect distributor companies which recognises an equalisation equal to the maximum between zero and the result that would be obtained using the conventional percentage loss factors applied for the three years 2019-2021, if the total economic result equal to the difference between the equalisation balance and the revenues obtained from the tariff regulation of the reactive energy pursuant to paragraph 24.2 of the TIT is positive (net debt position).
The Authority also extends the mechanism for recognising "non-recoverable" fraudulent withdrawals also to the years 2022 and 2023. The conventional percentage standard loss factor to be applied to the electricity withdrawn at the withdrawal points on the low voltage grids is finally set, starting from 1 January 2023, at 10%.
With resolution **336/2023/R/eel**, the Authority began the procedure to reform the electricity and network loss settlement regulations, followed by the consultation document **377/2023/R/eel** with reference to the reform of the settlement and network loss regulations, containing the Authority's guidelines on moving beyond the load profiling regulations and "residual" electricity supply methods, with the deadline for submitting comments set for 25 September 2023. The consultation document outlines the following scenario:

- by 31 July 2024, the regulatory framework for the new settlement and network loss rules will be established, pursuing the following objectives:
  - going beyond the current load profiling methods and redefining the methods to determine and obtain "residual" energy;
  - unifying metering data functional to the settlement and regulating of network losses and simplifying disclosure obligations;
  - revising the current loss equalisation mechanism with a view to defining regulations which better adhere to the actual performance of individual companies;
  - prompt determination and assessment of physical and economic items for dispatching, with a consequent reduction in financial charges borne by various system actors and guarantees.
- by 31 December 2025, the schedule and methods for integrating that envisaged in the new regulations with the IWS are expected to be determined.

Continuity of the service

With the Integrated Text on output-based regulation in force from 1 January 2020, the Authority introduced the possibility for the DSOs to present regulatory experiments to improve the service quality in particularly critical contexts. A specific feature of these experiments is the suspension of the penalties for the experimental period and their non-retroactive application if the target levels for the indicators of number and duration of interruptions without notice, set by the current regulations, are achieved.
In this context, *a*reti presented its proposal, outlining a process for improving the technical quality indicators different from that defined by the ordinary regulation. This proposal was approved by the Authority with Determination 20/2020 of 20 November 2020.
The measure postpones to 2024 the calculation of the bonuses and penalties for the entire four-year period 2020-2023 and provides for the activation of an additional bonus mechanism if the target proposed at 2023 is achieved and the effective annual levels achieved are better than those proposed in the experimentation. The total bonus obtained cannot be more than that achievable in the ordinary regulation and in the case that the improvement commitment indicated is not achieved, *a*reti will have to pay any penalties it would have received during the four year period in the absence of the derogation.

Energy efficiency certificates and tariff contribution awarded to distributors

On 14 July 2020, Resolution 270/2020/R/efr was published; this contained the new rules for defining the tariff contribution to cover the costs incurred by DSOs with regard to obligations arising from the mechanism of energy efficiency certificates. The measure confirms the value of the cap on the tariff contribution of € 250/EEC and introduces, starting from the current obligation year, a consideration additional to this contribution, to be awarded to each distributor for each EEC used to comply with its obligations. On the one hand, ARERA repeats that it considers the cap an instrument necessary to limit the changes in market prices, on the other, it considers opportune to provide for an additional consideration in support of distributors in the light of the economic losses that they are forced to incur owing to the scarcity of EECs available. On 13 October 2020 the Company presented an appeal for cancellation of the resolution.
The resolution, in addition, introduced the possibility of requesting from CSEA the extraordinary consideration in advance of 18% of the specific target for the 2019 obligation year, in order to finance distributors which having already acquired EECs at the beginning of the period, then suffered the negative effects of the extensions of the end date of the obligation year laid down in the Italian Relaunch Law Decree (30 November 2020). Areti submitted an application on 31 August 2020.
In December 2020, Resolution 550/2020/R/efr confirmed the value of 250 €/EEC for the tariff contribution awarded for the 2019 obligation year and fixed at 4.49 €/EEC the value of the additional consideration.
On 31 May 2021, the Decree of the Ministry for the Ecological Transition was published in the Official Gazette, containing the "Determination of national energy saving targets that could be pursued by electricity and gas distribution companies for 2021-2024 (so-called white certificates)". The Decree extended the expiry of the obligation year 2020 to 16 July 2021, and the Authority subsequently published Determination 6/2021-DMRT, whereby it determined the primary energy saving obligations for electricity and natural gas distributors for the obligation year 2020, setting Areti an obligation of 54,848 white certificates.
On 3 August 2021, the Authority issued Resolution **358/2021/R/efr**, with which it confirmed the cap at 250 €/EEC and the additional unit fee at 10 €/EEC. In view of the extension of the deadline for the 2020 obligation year to 16 July 2021 and the regulatory uncertainty still existing in the run up to this deadline, the Authority published Resolution **547/2021/R/efr** in which it confirmed its intentions stated in DCO **359/2021/R/efr**. In particular, the Authority established that electricity and natural gas distributors will be granted an exceptional additional component of 7.26 €/EEC for each certificate delivered at the end of the 2020 obligation year, applicable to their own specific target for that obligation year and to any remaining portions of the targets for the 2018 and 2019 obligation years, but not beyond the threshold of their own updated specific target. The exceptional component was envisaged to cover the extra costs incurred by operators for the difficulties in procuring the EEC needed for the upcoming target deadlines. The Authority

published determination **16/2021 – DMRT** with which it defined the 2021 EEC obligation for the Company, totalling 16,580 EECs, as well as determination **7/2022 – DMRT** which defines the 2022 EEC obligation, totalling 27,881 EECs.
With resolution 454/2023/R/efr, following DCO 382/2023**,** the Authority increased the single tariff contribution paid as an advance to distributors meeting their energy saving requirements in the context of the TEE mechanism and revised the maximum percentages of the obligations which can be complied with in the said session.
In particular, for each obligation year (t) the single tariff contribution is paid in advance for each energy efficiency certificate received in the period between the start of the obligation year and the subsequent 30 November for quantities not to exceed:

- 50% of the relevant specific target for the same obligation year (t);
- 100% of each of any residual portions of the target for the obligation year (t-2) and the relevant target for obligation year (t-1)

The single tariff contribution paid in advance is equal, for each obligation year (t), to:

- the sum of the single tariff contribution and the additional single payment for obligation year (t-1), relative to a quantity of certificates not to exceed 50% of the obligation assigned to each company for the same obligation year (t);
- € 240.00/TEE relative to the amount of excess certificates.

CSEA pays the contribution in advance to the DSO within 60 days of the completion of GSE verifications, with interest for each day of delay equal to the reference rate set by the European Central Bank, with a minimum of 0.5%.

Development and Resilience Plan

In the Development Plan, distributors are held to include a specific section containing the resilience plan, which includes network projects intended to increase the resilience of the electrical system with respect to severe and persistent weather events.
The Resilience Plan 2020-2022 was approved with **resolution 500/2020/R/eel**, including the final figures for projects completed in 2019: for these projects, with resolution **563/2020/R/eel** the Company was recognised a bonus of around € 3.1 million.
With resolution **536/2021** the Authority approved the 2021-2023 plan and with resolution **537/2021/R/EEL** determined the bonuses and penalties relating to the electricity distribution network resilience increase interventions concluded in 2020 (for *a*reti, the 2020 resilience bonus adds up to € 5.3 million, which CSEA paid to the Company at he end of 2021).
The Authority has published **121/2022/R/eel** which calls for a new process to prepare development plans. In particular, for 2022 it suspends the 30 June deadline set for the preparation of distribution network development plans, while awaiting subsequent definition of more suitable scheduling, to take into account the new provisions introduced in article 23, paragraph 5 of Legislative Decree 210/21 and to allow for plan preparation to duly take into account the scenario information that will be made available by Snam and Terna by 31 July 2022. The deadline of 30 June was confirmed for sending the updated Resilience Plan pursuant to article 78.3 of the TIQF.
The Authority published **resolution 722/2022/R/eel** in which it established bonuses relative to projects to improve the resilience of the electricity distribution network completed in 2021, which for areti amounted to € 8,588,073.13, which CSEA must pay by January 2023.
Distributors with at least 100,000 withdrawal points present the Development Plan for their network annually by 30 June.
After the suspension of this requirement for 2022, the Authority developed the idea of an evolution in the content of the Development Plans, also implementing the EU guidelines on promoting renewable energy. Therefore, it published consultation document **173/2023/R/eel** which outlines guidelines to identify performance priorities and indicators for more selective development of investments in electricity distribution networks and for the progressive introduction of provisions for the consultation and preparation of distribution network development plans.
With DCO 173/2023, postponing the due date for the presentation of the Development Plans, the Authority proposed new content and methodology for the preparation of the 2023 Plans to the distributors.
Subsequently, the Authority published **resolution 296/2023** in which it defined the schedule for the preparation and public consultation of distribution network development plans, as well as introducing certain initial requirements for preparation of the same, while awaiting additional provisions. In particular, distributors with more than 100,000 end customers must present the Authority with a 2023 development plan by 30 September, simultaneously beginning a public consultation period of at least 30 days, as areti did on 2/9/2023, publishing the document on its website. Following the consultation, each distribution company will present its development plan to the Authority by 30 November 2023, possibly updated based on that resulting from the consultation, together with the comments received and their responses, indicating any changes made. Starting in 2025, each distribution company with at least 100,000 end customers will present the scheme of their development plan to the Authority by 31 March of each odd year, at the same time each distribution company with at least 100,000 end customers will begin a public consultation on the same scheme, lasting at least 42 days. Following the consultation, each distribution company with at least 100,000 end customers will present its development plan to the Authority by 30 June of each odd year, possibly updated based on that resulting from the consultation, together with the comments received and their responses, indicating any changes made.
The Authority published resolution **422/2023**, which establishes the bonuses for projects to improve the resilience of the electricity distribution network completed in 2022. The net amount of the resilience bonus for 2022 that CSEA will pay to Acea Group by October 2023 is € 5,635,481.55.
The Authority published consultation document 173/2023, which illustrates the Authority's guidelines on identifying priorities and performance indicators for more selective development of investments in electricity distribution networks and the progressive introduction of provisions for the consultation and preparation of distribution network development plans.

Transmission, distribution and dispatching of electricity withdrawn for subsequent feeding into the grid

The Authority published Resolution 109/2021/R/eel - which follows up on Consultation Document 345/2019 - in which it defines the procedures for providing the transmission, distribution and dispatching service in the case of electricity withdrawn for consumption relating to ancillary generation services, and in the case of electricity withdrawn and subsequently fed back into the grid from the storage system. The priority objective of the resolution is to standardise regulations for the transmission, distribution dispatching services for electricity withdrawn for subsequent feeding back into the grid and extend the aforementioned regulation to more complex

cases, where the withdrawal of electricity via the same connection point is not only intended for storage systems and/or ancillary generation services, but also additional loads separate to these. The resolution stipulated that as from 1 January 2022 on request of the producer, electricity withdrawn for the subsequent feeding into the grid will be handled as negative electricity fed in for the purposes of accessing transport, distribution and dispatching services.
ARERA published Resolution 560/2021/R/EEL with which it postponed to 1 January 2023, rather than 1 January 2022, application of the rules on transmission, distribution and dispatching services for electrochemical storage pursuant to Resolution 109/2021/R/EEL, after presentation of the relative application by the producer or entity requesting connection to the network operator, based on the model established in resolution DMEA 5/2022.
The Authority published resolution 472/22, supplementing the regulation introduced by resolution 109/21 on auxiliary services and storage systems, defining its guidelines on:

- determining penalties in cases in which 110% of the power declared in the certified appraisal for auxiliary services and/or storage systems is exceeded;
- redetermining the duration of the time interval to quantify electricity withdrawn, functional to allowing subsequent issuing to the network using a division ratio;
- defining the procedure to replace metering equipment for hourly registration of electricity metering data.

The Authority published resolution 142/2023/R/eel which updates the TIS and TIME so that vendors, on one hand, and distributing companies and Terna, on the other, can properly value electricity withdrawn from system configurations that access the new regulations introduced with resolution 109/2021/R/eel. To that end, with this resolution the Authority governed methods used to send data about electricity withdrawn to power auxiliary generation services and electricity withdrawn and subsequently re-issued to the network by storage systems and net energy withdrawn.

Collective self-consumption and Renewable Energy Communities

In November 2016, the European Commission presented the "Clean Energy for all Europeans Package" (CEP), to contribute to achieving the commitments undertaken by the EU in the Paris Accords. The proposal led to the adoption of eight legislative acts, between 2018 and the first half of 2019, with which the European Union reformed its energy policy framework. Of particular significance were Directives 2018/2001 (which introduced the "Renewable Energy Communities") and 944/2019 (which defined the "Citizen Energy Communities"); domestic implementation began with article 42-bis of Decree Law 162 of 2019, the "Thousand Extensions", converted by Law 8/2020 (published in OJ 51 of 29 February 2020) which implemented in advance Directive 2018/2001, allowing electricity consumers to band together to create "Renewable Energy Communities" (REC).
The Authority published resolution 318/2020/R/eel implementing that established in article 42-bis of Decree Law 162 of 30 December 2019, on the regulation of economic items relative to electricity subject to collective self-consumption or sharing in the context of renewable energy communities. Subsequently, the Ministry of Economic Development published the Ministerial Decree of 16 September 2020 which established the incentive tariff remunerating plants powered by renewable sources inserted in the experimental configurations of collective self-consumption and renewable energy communities.
Article 8 of Legislative Decree 199 of 2021 expanded the power of Renewable Energy Communities to 1 MW and established the updating of the incentive mechanisms for plants powered by renewable sources inserted in collective self-consumption or renewable energy community configurations with a power not exceeding 1 MW, based on the following guidelines:

a) the incentive can be accessed by plants powered by renewable sources which individually have power not exceeding 1 MW and which begin operating after the date on which the Decree took effect;
b) for self-consumers of renewable energy acting collectively and renewable energy communities, the incentive is paid only with reference to the portion of energy shared by plants and consumption users connected under the same primary substation;
c) the incentive is disbursed in the form of an incentive tariff allocated only to the portion of energy produced by the plan and shared within the configuration;
d) in cases pursuant to letter b) for which sharing is carried out utilising the public distribution network, a single adjustment is envisaged, consisting of the restitution of the components pursuant to article 32, paragraph 3, letter a), including the portion of shared energy, and the incentive pursuant to the present article.

Article 14 of paragraph 6 of Legislative Decree 210 of 2021 defines the citizen energy communities, which must be established in compliance with the following conditions:

a) participation is voluntary and open to all interested parties, which may also withdraw from the community configuration with the same guarantees and rights established in article 7 of the decree;
b) community members or shareholders maintain all the rights and obligations associated with their position of civil customers or active customers;
c) communities can participate in sectors consisting of electricity generation, distribution, supply, consumption, aggregation, or storage, or the supply of energy efficiency services, electric vehicle charging services or other energy services;
d) the citizen energy community is a legal entity governed by private law which can take any legal form, without prejudice to the fact that its articles of association must identify as its main goal the pursuit, in favour of its members, shareholders or the area in which it operates, environmental, economic or social benefits at the community level, with financial profit not allowed as the main purpose of the community;
e) the community is responsible for dividing the electricity shared among its members.

Following the publication of the **consultation document 390/2022/R/eel**, the Authority published **resolution 727/2022**, containing the Consolidated Widespread Self-Consumption Act (TIAD), which governs the methods for valuing widespread self-consumption for the configurations established in Legislative Decrees 199/21 and 210/21, the application of which takes effect on the latter of 1 March 2023 or the date on which the MASE decree pursuant to article 8 of Legislative Decree 199/21 (incentive regulation) takes effect.
At the same time, as from the same date, resolution 318/2020/R/eel and relative Annex A will be abrogated.
With reference to the identification by the DSOs of the area associated with the same primary substation, article 10 of the TIAD establishes that solutions adopted to determine the perimeter must take into account:

a) the structure of the electricity networks;
b) the operating structures of the electricity networks;

c) the prospective development of the electricity networks, to the extent known at the time of identification;
d) without prejudice to the constraint associated with the territory assigned to electricity distribution concession and other geographic aspects functional to making the conventional area identified usable.

Therefore, ARERA confirms that the perimeter identified must temper the technical nature of the network underlying the primary substation and the conventional relative geographic perimeter to better respond, to the extent possible, the needs of the market.

The first version of these maps must be published on the websites of the DSOs associated with the primary substations by 28 February 2023, with validity until 30 September 2023, and must also be submitted for consultation until 31 May 2023. The maps will be published on the GSE website by 30 September 2023, with methods defined by the GSE itself.

The maps also:

- use as reference the supply address associated with each POD;
- are updated on a two-year basis, as from 1 October 2023;
- in the case of underlying DSOs, the area in concession is added in its entirety to the area underlying the primary substation to which the underlying distribution company's network is physically connected.

Publication of the MASE decree is awaited, pursuant to article 8 of Legislative Decree 199/21 (incentive regulation).

The GSE published a consultation document, with an expiration date of 19 June, to acquire elements useful for defining Operating Rules relative to the widespread self-consumption service defined by the Authority with resolution 727/2022/R/eel and the relative Consolidated Widespread Self-Consumption Act (TIAD). In particular, the aspects discussed in the consultation involve admission to the widespread self-consumption service, activation of the widespread self-consumption service and the disbursement of contributions for the widespread self-consumption service. Acea has not identified any particular issues with respect to the operating rules proposed by the GSE.

Revision of the regulation for penalty proceeding rules and assessment of commitments

With resolution 326/2023/E/com the Authority began a procedures to revise the regulation which governs penalty proceedings and procedural methods to assess commitments, followed by consultation document 327/2023/E/com which illustrates the guidelines on the subject.

Electric mobility

With resolution **541/2020/R/eel**, supplemented by Resolution 160/2021R/eel, the Authority launched national experimentation destined for LV customers, aimed at facilitating the installation of e-car rechargers in private areas.

Acceptance is voluntary and free and access is subordinated to observance of a number of conditions:

a) the customer must be at LV with contractually committed power of not more than 4.5 kW and not less than 2 kW;
b) the POD must be fitted with a 1G o 2G remotely-managed meter. In this second case, any multi-hour bands set by the vendor must enable identification of the withdrawals made in night, weekend and holiday bands;
c) a recharging device must be electrically connected to the meter; this device must at least be capable of:
    - measuring and recording the active recharging power and transmitting this figure to an external subject (e.g. an aggregator);
    - reducing/increasing or reinstating the maximum recharging power.
d) customers must give their consent to checks and controls also in their homes and are required to communicate promptly any change to the system or contract that occurs during the experimentation.

Application of the experiments, initially envisaged as from 1 July 2020 through 31 December 2023, was extended to 31 December 2024 with resolution 634/2023/R/eel, which represents the first result of consultation 540/2023/R/eel.

ENVIRONMENTAL REGULATION

Following consultation document 351/2019, on 31 October 2019 ARERA approved Resolution 443/19 containing the first integrated waste management service tariff method 2018-2021.

With reference to the WTM – Waste Tariff Method, the new rules define TARI fees to be applied to users in 2020-2021, the criteria for the costs recognised in the current two-year period 2018-2019 and the reporting obligations.

As in other sectors subject to regulation, the new waste tariff method refers to ex-post data referring to certain accounting sources (financial statements) for the year Y-2 and applied to year Y (including indications of adjustments that permeate the entire algebraic structure of the method) and no longer to forecast data.

The new ARERA method applies a hybrid approach, borrowed from other service regulations like electricity and gas, with a different treatment of capital costs and operating costs. Namely:

- Capital costs recognised according to a regulation scheme of the rate-of-return type;
- Operating costs with the application of incentive regulation schemes and the definition of efficiency targets on a multi-annual basis.

Furthermore, as already anticipated in the consultations, the method calls for tariff limits to revenue growth in addition to the introduction of four different schemes that can be adopted by local authorities and operators with respect to the objectives of improving service. More specifically, the method regulates the phases of the integrated waste service as identified: street sweeping and washing, collection and transport, treatment and recovery, treatment and disposal of municipal waste, tariff management and user relations.

In this first definition of the tariff method, ARERA maintained the algebraic structure of the method established by Italian Presidential Decree 158/1999, including tariff factors corresponding to additional components for the determination of the fees, some of which are as follows:

- limit to the overall growth of tariff revenues, with the introduction of a limit factor for annual variation that also takes into account efficiency gains and productivity recovery;
- an asymmetric approach that takes into account in the measurement and in the calculations of the single cost components: 1. Service improvement objectives established at the local level and 2. the possible extension of the operational perimeter; these parameters determine the positioning of the individual operation within a tariff matrix defined according to the regulatory method;
- sharing factor in relation to revenues from the sale of material

and energy from waste (between 0.3 and 0.6), and in relation to CONAI revenues (between 0.1 and 0.4);
- introduction of an adjustment component for both variable and fixed costs, defined as the difference between the revenues relating to the variable and/or fixed cost components for the year Y-2 – as redefined by the Authority – compared to the tariff revenues calculated for the year Y-2. In the recognition of 2018-2019 efficient costs, this component is modulated through a coefficient of gradation and provides for the payment for the recovery of any deviations through a number of instalments, up to 4;
- introduction of two different rates of return on net invested capital (WACC) for the service of the integrated waste cycle and a differentiated rate of return for the enhancement of current assets. Regarding the WACC of the integrated waste cycle for the period 2020-2021, it is defined as 6.3%. To this value is added a 1% increase to cover the costs arising from the time lag between the year of recognition of investments (Y-2) and the year of tariff recognition (Y), known as the time lag.

In order to take account of the different initial territorial conditions, as previously with the water sector, the Regulator has introduced a methodology that defines the criteria for the quantification of tariffs within an asymmetrical regulation, where there are four different types of tariff schemes under which each competent entity can identify the most effective solution depending on its objectives of quality improvement and management development currently applicable to operators in the first part of the integrated waste service chain, in particular to the phases of sweeping and washing roads and collection and transport.
The EFP (Economic and Financial Plan) remains the tool of reference for the development of the integrated cycle and for the calculation of TARI tariffs and is prepared by the "integrated waste system operator", where it is also the Municipality, while "the operators who manage parts of the supply chain make their data available to those who prepare the EFP for the correct elaboration of the entire Plan".
With regard to the Integrated Text TITR - 444/2019/R/rif - Provisions on transparency in the management of urban and similar waste, it is specified that this text defines the provisions on transparency of the management of urban and similar waste for the regulatory period 1 April 2020-31 December 2023. The scope of the intervention includes the minimum information to be made available by the integrated cycle manager through websites, the minimum information to be included in collection documents (payment notice or bill) and individual communications to users concerning significant changes in operations.
With Resolution **138/21**, ARERA started the procedure for updating the WTM (the "WTM-2"), which will be effective from 2022 and in which also establishes the methodology for defining the so-called "gate tariffs", which will have a direct impact on the operation of some of the Company's plants.
With Determination **01/DRIF/2021**, the Authority began collecting data on treatment plants in the unseparated waste chain (D10 and R1 incinerators, mechanical/mechanical-biological treatment, and landfills). The Company duly responded within the required deadline.
Consultation Document 196/21 was then published regarding gate tariffs, clarifying the regulatory scope envisaged by the Authority: ARERA is currently inclined towards including all the plants that manage urban waste, with the exception of those that are "connected with recycling chains, focused on materials recovery, managed by chain consortia (funded by contributions from member companies) or by other entities, and with whom municipalities may sign specific agreements to cover the charges incurred for separate waste collection.
With resolution **363/2021/R/rif**, the Authority approved the new Waste Tariff Method (MTR-2) containing the method for determining tariff revenues for delivery of the integrated urban waste management service, or the individual services that constitute it (such as the recovery/disposal service, carried out directly by the Company), applicable to the years 2022-2025. In this context, criteria are established for access tariffs for treatment plants owned by by operators not integrated into the upstream activities of the supply chain, which apply solely to those identified as "minimum plants" by the relevant entities in the context of area planning. Vice versa, plants not classified as "minimum" (known as "additional") are subject solely to the regulations on transparency in operating information. According to the adopted method, the managers of the minimum plants must prepare the Economic Financial Plan for 2022-2025 in line with the indications found in the aforementioned MTR-2 and, pursuant to article 7 of resolution 363/2021/R/rif, send them to the relevant bodies for validation; these latter then send them to ARERA for verification of regulatory consistency with the documents and subsequent approval of the tariffs.
Resolution **459/2021/R/rif** subsequently completed the tariff regulatory framework, containing the values of parameters to determine capital use costs (i.e. planned inflation rate and the vector expressing the deflator for gross fixed investments for the MTR-2 period of application), as well as resolution **68/2022/R/rif** which established, for managers providing processing activities in a non-integrated form, a WACC value of 6%.
With determination **01/DRIF/2022** of 22 April 2022, ARERA approved the basic schemes for the documents making up the tariff proposal that managers of "minimum" plants submit to the relevant bodies, consisting of the GBOTAs or the Region. In particular, reference is made to the EFP and the Report accompanying the same.
In 2022, following the sector scheduling documents published by the relevant bodies, in application of the ARERA regulations pursuant to resolution 363/2021/R/rif, Acea Ambiente implemented preparatory activities to comply with regulatory activities for plants classified as "minimum" and, subsequently, sent the documents required under Determination 01/DRIF/2022.
Also note other activities carried out by ARERA:
- with consultation document **611/2022/R/rif** the introduction of equalisation systems was proposed in the waste sector, in particular associated with respect for the waste hierarchy (and recovery of accidentally fished waste); with this mechanism, which is pass-through for plant managers, an economic incentive would be applied for deliveries with respect to recovery of materials or energies, supported by penalties applied to deliveries to landfills;
- with Resolution **413/2022/R/rif** a proceeding was launched, also envisaged in the 2022 Competition Law, to define adequate technical and quality standards to carry out disposal and recovery activities. Subsequently, with Resolution 732/2022/R/rif, the proceeding was combined with the one launched with Resolution 364/2021/R/rif (to determine efficient costs for separate waste collection, transport, sorting and other preliminary operations) and extended to 30 June 2023;
- with consultation document 643/2022/R/rif, published as part of the procedure began with resolution 362/2020/R/rif, the initial guidelines were issued for the preparation of a basic service contract scheme to govern relations between awarding entities and managers of urban waste management services.

On 24 and 27 February, decisions **486/2023** and **501/2023** were

respectively published, and on 6 March 2023, decision **557/2023**, with which the Regional Administrative Court of Lombardy, Milan, First Section, in part annulled resolution 363/2021/R/rif. Specifically, the Regional Administrative Court found that ARERA's identification of "minimum" plants fell outside of the government's area of responsibility, consequently granting Regions powers not due to them and inverting the proper direction of the scheduling process.
On 7 March 2023, ARERA published resolution **91/2023/C/rif** providing information on its appeal made to the Council of State, requesting precautionary suspension of the decisions of the Regional Administrative Court of Lombardy, in that in the Authority's opinion, "*the referenced decisions [...] are based on an erroneous interpretation of the relevant factual and legal elements*". The Council of State rejected this precautionary suspension request.
While awaiting the Council of State's decision on the merits, with consultation document **275/2023/R/rif**, in the context of the procedure begun with resolution 62/2023/R/rif, the Authority provided guidance for the 2024-2025 two-year update for the waste tariff method (MTR-2). In particular, the Authority confirmed its desire to not submit to the referenced Lombardy Regional Administrative Court decisions and proposed updates to the main economic parameters, above all the inflation rate.
Upon completion of the aforementioned procedures, in July 2023 ARERA published the following provisions:

- Resolution **385/2023/R/rif** "Basic service contract scheme to govern relations between awarding entities and urban waste management service operators" which follows (most recently) the guidelines presented with the cited DCO 262/2023/R/rif;
- Resolution **386/2023/R/rif** "Establishment of equalisation systems in the urban waste sector" which takes up the proposals formulated in DCO 611/2022/R/rif without confirming the introduction of the equalisation instrument linked to the waste hierarchy for that going to plans (postponed to the next regulatory period);
- Resolution **387/2023/R/rif** "Monitoring and transparency obligations for efficiency in separated waste and urban waste treatment plants", which introduced initial regulations for quality for plants, with reference to both technical aspects (in particular management of processing waste) and contractual/commercial aspects (management of complaints and written requests from users, monitoring of service interruptions) with respect to which the Company adopted specific compliance measures in terms of collecting and recording information and making adjustments to contracts and its website; while establishing initial monitoring and reporting obligations, the provision did not introduce service standards correlated to bonus and penalty mechanisms, which had been announced in DCO 214/2023/R/rif;
- Resolution **389/2023/R/rif** "Two year update (2024-2025) of the waste tariff method (MTR-2)" with which, in line with the proposals in DCO 275/2023/R/rif, confirms and updates (with particular reference to economic parameters and internal inflation rates) the general structure for defining plant access tariffs pursuant to resolution 363/2021/R/rif, specifically the update of the tariff for 2024-2025 (based on updated data relative to 2022-2023) by 30 April 2024. With resolution 465/2023/R/rif ARERA subsequently confirmed the provisions inserted in line with Council of State ruling 7196/23, on the deduction of the tariff recognised for integrated management of costs/revenue attributable to precleaning, preselection or preprocessing of plastic packaging coming from separated waste.

During December 2023, the **Council of State Second Section Rulings 10548, 10550, 10734, and 10775,** rejected the ARERA appeal and confirming the reasoning already expressed by the Regional Administrative Court of Lombardy, which found the classification of plants envisaged in the MTR-2 to be illegitimate, in that the material fell under the areas of planning falling to the government.
With resolution **7/2024/R/rif** ARERA took action to comply with these rulings, cancelling the tariff adjustment for "minimum" plants for 2022-2023 but at the same time confirming it for 2024-2025 (as updated by resolutions 389/2023/R/rif and 7/2024/R/rif with reference to time references and the new investment remuneration rate - WACC - which rose from 6% to 6.6%). Confirmation of the structure for "minimum" plants now is based on the criteria identified in the meantime in the PNGR (Ministerial Decree 257 of 24 June 2022).
Additionally, with resolution **27/2024/R/rif** ARERA began the procedure to define directives for accounting and administrative separation in the urban waste sector, with the objective of applying the regulations starting in the next regulatory period, in 2026.

As far as the publication of the four European directives is concerned, they provide for amendments to six European directives on waste, namely:

- Directive 2018/851/EU, amending the so-called mother directive on waste 2008/98/EC;
- Directive 2018/850/EU, amending the landfill directive 1999/31/EC;
- Directive 2018/852/EU, amending the packaging directive 94/62/EC;
- Directive 2018/849/EU, amending the directive on end-of-life vehicles 2000/53/EC, the directive on batteries and storage 2006/66/EC and the directive on waste electrical and electronic equipment, the so-called WEEE 2012/19/EU.

In short, the primary new development that these measures bring to environmental legislation concerns the percentages of separate collection to be achieved in the coming years, in particular up to 2035 (though establishing intermediate steps from 2020 to 2030 and from 2030 to 2035), namely:

- urban solid waste: the target is to recycle at least 65% by 2035, with intermediate stages of 55% by 2025 and 60% by 2030;
- packaging: the goal is to recycle at least 65% by 2025 and 70% by 2030;
- landfills: the objective is to limit the entry of waste into landfills to a maximum of 10% by 2035. To this end, Member States must endeavour to ensure that by 2030 all waste suitable for recovery or recycling – in particular municipal waste – is not landfilled, with the exception of waste for which landfilling is the best environmental option. On the subject of landfills, the introduction of article 15-ter to the 1999 directive established that the Commission shall adopt implementing acts to determine the method to be used to determine the permeability coefficient of landfills locally and throughout the area. And the introduction of article 15-quater confers on the Commission the task of adopting implementing acts to develop a criterion for waste sampling (until the concrete enactment of this new method, Member States use the national systems currently in place);
- separate collection of household waste: important changes are foreseen for the separate collection of household waste, such as textile waste, organic waste and hazardous household waste, not always collected separately at this time;
- waste prevention measures: the directives state explicitly that Member States must take a series of measures to prevent the production of waste upstream, such as domestic composting and the use of materials obtained from organic waste, to encourage the production and marketing of goods and components

suitable for multiple use, and to provide financial incentives to encourage such virtuous behaviour;

- these targets may be revised in 2024 (especially in view of the fact that they are considered excessively ambitious for some States that, for example, currently frequently use landfills). In this sense, the legislature therefore stated that, recognising the significant differences in treatment between different States, it will be possible to grant an extension up to a maximum of 5 years for States that in 2013 prepared for reuse and recycled less than 20% of urban waste or landfilled more than 60% of urban waste);
- in compliance with the above European Delegation Act, the following acts have been approved: Legislative Decree 116/2020 on waste and packaging, Legislative Decree 118/2020 on waste batteries and accumulators (RPA) and waste electrical and electronic equipment (WEEE), Legislative Decree 119/2020 on end-of-life vehicles and Legislative Decree 121/2020 on landfills.

Finally, the rewording of article 6 of Directive 98/2008/EC on the cessation of the qualification of waste (End of Waste) deserves a brief comment. In particular, with the new amending resolution, the European law requires Member States to take appropriate measures to ensure that where a substance or article meets the requirements for End of Waste it cannot be classified as waste.

More specifically, having regard to the competence of the European Commission to define the general criteria for the uniform application of End of Waste conditions, it is established that if the latter does not do so for certain types of waste, Member States may establish detailed EoW criteria for certain types of waste that must take into account all the substance's or object's possible adverse effects on the environment and human health and meet the EoW requirements of the directive. Such decisions must be notified to the Commission by the Member State.

Moreover, the same resolution also states that Member States may decide on a case-by-case basis or take appropriate measures to verify that certain wastes have ceased to be such under the conditions set out in the directive, where necessary reflecting the EU EoW criteria and taking into account limit values for pollutants and all possible adverse effects on the environment and human health. Such decisions taken on a case-by-case basis need not be notified to the Commission.

Finally, on the subject of EoW, note the amendment approved on 6 June 2019 and included in the Reopen Building Sites Decree (Decree Law 32/2019, converted with Law 1248). In particular, the rule establishes that pending the adoption of one or more decrees containing the EoW criteria for specific types of waste, ordinary permits for waste recovery plants must be granted on the basis of the criteria indicated in the measures governing simplified waste recovery (Ministerial Decree 5 February 1998, Ministerial Decree 161/2002 and Ministerial Decree 269/2005) "for the parameters indicated therein, for the parameters relating to the type, origin and characteristics of waste, recovery activity and characteristics of what is obtained from these activities". Ordinary permits must, on the other hand, identify the necessary conditions and requirements "regarding the quantities of waste admissible to the facility and to be subjected to recovery operations".

The Ministry of the Environment (now the Ministry for the Ecological Transition) is authorised to issue specific guidelines "by decree not of a regulatory nature" for the uniform application of the regulations throughout the country.

With Ministerial Decree 257 of 24 June 2022, the National Waste Management Programme (PNGR) was approved, a guidance tool for the Regions and Autonomous Provinces when planning urban waste, which establishes macro-objectives, macro-actions, targets and guidelines to follow when preparing Regional Waste Management Programmes (PRGR). This tool was envisaged in article 198-bis of Legislative Decree 152 of 3 April 2005, introduced by Legislative Decree 116 of 3 September 2020 and inserted in the National Recovery and Resilience Plan (NRRP), as one of the main reforms within the circular economy mission (M2C1).

The PNGR has a six year timeframe (2022-2028) and the objective of eliminating the plant gap, increasing the rate of separated waste collected and recycling to develop new supply chains for secondary raw materials in the waste cycle, replacing traditional ones, while contributing to the energy transition, starting from a national survey of existing plants. Additionally, the Programme classifies plants for the purposes of tariff regulation using ARERA methodology, indicating the need to adopt Life Cycle Assessment (LCA) based plans at the regional level.

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

Sustainable development

The war in progress in Ukraine has once again demonstrated the interconnectedness of the global situation, with effects felt throughout the world. In the energy arena, as is well known, extreme consequences were seen due to the block in supplies, which provided a push to reopen plants utilising polluting energy sources. The European Union reacted with the REPower EU plan, with the aim of reducing dependence on fossil fuels coming from overseas and accelerating the green transition.

In terms of climate, data from the EU Copernicus observatory saw extreme climate events, record temperatures and rising greenhouse gases globally. In Europe, continuing high temperatures aggravated water issues, with repercussions for agriculture, river transport and energy management. Extreme drought conditions also led to an increased risk of fires, which led to an unusually high number of episodes in southwest Europe.

The global and national institutional initiatives implemented should be viewed and evaluated in this context. COP27 on the climate, held in Egypt, and COP15 on biodiversity, in Montreal, had objectives which included expanded protected areas and regenerating damaged ecosystems (30% by 2030). Domestically, note the constitutional reform of articles 9 and 41 and the National Climate Change Adaptation Plan.

Last year, Europe adopted certain specifications and significant provisions with regards to corporate sustainability. The Corporate Sustainability Reporting Directive, was in fact published in the EU Official Journal, an update of the Non-Financial Reporting Directive of 2014, which expands the range of companies subject to reporting requirements and introducing significant changes, for example double materiality, preparation of new standards and the inclusion of a disclosure in the Report on Operations. Institutional work on the Directive continued relative to corporate due diligence requirements on environmental protection and human rights within the value chain, which in December 2022 led the EU Council to adopt guidelines on the subject. In the context of Regulation 2020/852 (European Taxonomy), in 2022 the Commission, in the Complementary Delegated Act, amended the Delegated Act on the Climate, introducing activities and associated technical criteria for energy generation, starting with nuclear and natural gas, and increasing the number of potentially environmentally sustainable activities in relation to which companies are asked to determine their eligibility and alignment, as well as identifying correlated economic KPI.

Standards in the reference markets at a local, national and supra-national level

The regulatory context of the Acea Group is wide-ranging and articulated according to the specificity of the businesses handled and the variety of the frameworks within which the legal and regulatory disciplines intervene, which affect the business operations, from administrative authorisation profiles to those protecting the market and competition. Added to such aspects are the specific features of being a listed Company, with the related legal impacts, for example, in terms of regulating communications to the market.
The various provisions (Decree Law 21/2022 - "Price Cuts Decree Law"; Decree Law 50/2022 "Aid Decree Law"; 2023 Budget Law) thereby governed the solidarity contributions mechanism borne by entities in the energy sector to limit the effects of high prices for businesses and consumers are also framed in this way.

Also associated with the extraordinary energy situation and significant for its impacts on energy companies, are the provisions on excess profits and suspension of unilateral changes to electricity and gas supply contracts. Relative to the former, Decree Law 4/2022, "Supports-ter Decree Law" established compensation mechanisms for producers using renewable sources which, under certain conditions, can lead to excess profits to be paid to the GSE; relative to the latter, Decree Law 115/2022, "Aid-bis Decree Law" called for companies to halt unilateral changes to energy supply contracts with regards to definition of prices, and the subsequent Decree Law 198/2022, "Thousand Extensions Decree Law" extended the period of validity (30 June), excluding application for expiring contracts.
In 2022, consultation for implementation of Directive (EU) 2020/2184 was requested, on the quality of water destined for human consumption, following which the Council of Ministers in December approved the preliminary examination the Legislative Decree for implementation. Important changes include the revision of regulations intended to protect human health from negative effects deriving from contamination of water intended for human consumption, guaranteeing "health and cleanliness", also through revision of the relevant parameters and values, definition of hygiene requirements for materials coming into contact with potable water, the introduction of a risk measurement and management approach that is more effective in terms of preventive health, environmental protection and control over water intended for human consumption, also with regard to costs and allocation of resources, strengthening the role of the Water Safety Plans (WSP), and improvement of equitable access for all to safe potable water and public information on water intended for human consumption.
In 2022, the delegated law on restructuring regulations for local public services was implemented with Legislative Decree 201/2022, which restructured the regulations, included among the objectives of the National Recovery and Resilience Plan (NRRP), to promote competitive dynamics that help improve the quality of public services and the results of management in the interest of citizens and users.
Also worthy of note is the preliminary approval on 16 December 2022 by the Council of Ministers of the Legislative Decree scheme to renew the Public Contract Code, intended to simplify regulations relative to public tenders and concessions to ensure efficient realisation of the same. The Code will apply to new proceedings starting on 1 April 2023. From 1 July 2023, abrogation of the previous Code is envisaged (Legislative Decree 50 of 18 April 2016) and application of the new norms, also for proceedings in progress.

Environmental and energy impacts

The natural environment is the scenario where the activities of the Group are performed and is to be preserved with a responsible and efficient use of resources, protecting sources, safeguarding the natural areas where the plants and service networks encroach, mitigating the physical and the external impacts generated in the ecological context of the operating processes.
During 2023, the COP28, held in Dubai, hosted the first global stocktaking, an opportunity to assess the joint effect of Nationally Determined Contributions (NDC). In this context, the parties defined an agreement to accelerate the global transition, promoting the "transition away" formula, and including for the first time in history an explicit reference to moving beyond fossil fuels to reach climate neutrality by 2050 and agreeing to triple the amount of renewable energy and double efforts for energy efficiency.
2023 was a decisive year for future European environmental policies. The European Parliament also approved the Nature Restoration Law, the first European legislation that explicitly aims to restore nature with legally binding targets for member states. In October 2023, during the European Business & Nature Summit in Milan, companies, financial institutions, governments and representations from academia and civil society met to discuss how companies can respect the commitments in the Kunming Montreal Global Biodiversity Framework (GBF) adopted in 2022. The event also saw the launch of the European Business and Nature Charter.
In 2023, the Taskforce on Nature-related Financial Disclosure (TNFD) issued its final document, containing recommendations on nature aimed at organisations, sectors and value chains.
In its Code of Ethics the Acea Group assigns fundamental importance to principles linked to sustainability and the adoption of a climate strategy. In 2023, Acea received validation of its Science Based Targets Initiative (SBTi) for its emission reduction target (by 2032), in line with climate science indications. Also in 2023, the Group participated in the Carbon Disclosure Project (CDP) on climate altering gas emissions and published its second climate-related disclosure following the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), enriching its projects aimed at identifying risks and analysis of medium/long-term climate scenarios.
In September 2023, Acea received validation of its reduction targets for 2032 for direct and indirect greenhouse gas from the Science Based Targets initiative (SBTi), with respect to base year 2020. The international organisation assessed Acea's goals in line with the "Well below 2°C" trajectory, the goal established in the 2015 Paris Accords to limit the increase in global temperature with respect to pre-industrial levels.
This decision represents an important acknowledgement of the decarbonisation process begun by the Group to support the energy transition. The targets set are: 56% reduction in emissions per MWh of energy produced (scope 1), 32% reduction in indirect emissions, consequent to electricity use (scope 2), 56% reduction in that deriving from energy production and energy supplies and resales, and a 30% reduction in emissions due to gas distributed and sold to customers.

Climate change

Sensitivity to the evolution of climate change and its effects on the businesses managed is a well-established theme at international level, which is also reflected in a greater demand for information in the annual financial report. Although there is no international accounting standard governing how the impacts of climate change are to be considered in the preparation of financial statements, the IASB has issued certain documents to support IFRS-adopters in meeting this stakeholder disclosure requirement. Similarly, ESMA, in its European Common Enforcement Priorities, highlighted that issuers should consider climate risks in the preparation of IFRS financial statements to the extent that they are significant regardless of whether or not these risks are explicitly provided for in the relevant accounting standards.
The Acea Group describes its considerations on actions associated with mitigation of climate change effects, as well as adaptation to climate change in its non-financial statement (prepared in compliance with the GRI Standard which also includes the information called for under Regulation 2020/852 in relation to the two climate objectives mitigation and adaptation). In this context, considering the sectors of activity in which the Group operates through its investees, the Acea Group, in continuing to define updated future plans that are currently being developed and prepared, has identified certain risks arising from the current process of mitigation and adaptation.
The following is a summary of the considerations made by management with reference to the aspects considered significant for the purposes of preparing the financial statements in the sectors of activity in which it operates.
With reference to the short term, the management does not detect any significant specific impacts deriving from climate-related risks, to be considered in the application of the accounting standards. In all the relevant sectors of activity, the Group pursues excellence in service provision; this entails an ongoing commitment to the development of adequate infrastructures and the evolution of their management, with the application of technological innovation and digitalisation, as well as the preservation and protection of water resources, the development of electricity generation capacity from renewable sources, the energy efficiency of production processes, the pursuit of a circular economy approach and the implementation of controls on commodities supplied to customers.
With reference to the medium/long term, the management, while continuing to define updated development plans which are currently being prepared, does not foresee any further specific considerations to be taken into account in the application of the accounting standards for the preparation of the financial statements.
It should be noted that the assessment and, more specifically, the quantification of climate-related risks requires the application of climate scenario analyses — an activity that the Group has launched, publishing in June 2023 its *Acea Group Climate Disclosure 2022, based on the TCFD recommendations.* However, it is also exposed to assumptions about highly uncertain future developments, such as future technological developments, government actions, regulatory initiatives or even developments in international political balances.
For the principal sectors in which the Group operates, actions to contain risks linked to climate change have been made concrete through investments in infrastructure to prevent and/or mitigate the impacts arising primarily from physical risks.
Also note that in 2020-2021 the main companies in the Group began a process of identifying priority physical risks, to be analysed using climate scenarios developed for the areas in which the assets operated are located, with medium/long and long-term projections, including projections of possible variations of the potential associated economic impacts, in relation to the increased probability of extreme event occurrence (increase in frequency and duration). The priority physical risks identified are drought and water stress (mainly for water systems); extreme rainfall and flooding (mainly for power distribution networks); lightning strikes (mainly for power generation assets). To analyse physical risks, two scenarios developed by the Intergovernmental Panel on Climate Change (IPCC) were used. By way of example, the fully consolidated areti SpA assesses and quantifies the effects of climate change (heat waves/drought and flooding) on its assets and the mitigation projects to implement in the Resilience Plan approved by the Regulatory Authority For Energy, Networks and Environment (ARERA).
Management has assessed that these investments do not reduce or modify the expectation of the economic benefits associated with the use of the assets recorded under tangible fixed assets, as they have regulatory relevance and are therefore subject to specific reimbursement mechanisms. Therefore, a critical review of the useful life of fixed assets on the balance sheet was not necessary.
With specific reference to the sale of commodities, the Group monitors the useful life of the customer base and the related accounting assessments as a potential effect of reputational risk.
With reference to the existence of risks of asset impairment, management has considered that, although actions to mitigate/adapt to climate risk entail the need to plan maintenance/evolution of plants in order to guarantee the quality of service, the safety of managed assets and the maintenance of their performance - these activities are in any case considered within the scope of the cash flow forecast used as the basis for determining value in use.
More specifically, impacts were identified in terms of sensitivity analysis carried out on CGUs, companies and systems by developing the risk analysis, considering the main external variables indirectly impacted by climate change issues (such as the production price index, energy price index and gas price index), potentially able to impact the relevant economic variables (EBITDA).
Finally, it is highlighted that legislation introduced in response to climate change could result in new obligations that did not previously exist.
Trends in raw material purchase costs along with hedging derivatives require a careful policy of monitoring requirements and price hedging. Trends in the cost of commodities as a result of the effects of climate change could make certain sales contracts costly. In addition, the unavailability of commodities could make cash flow hedges from highly probable future transactions ineffective.
Finally, with particular reference to regulated sectors, the presence of chronic physical risks could lead to a reduction in service quality resulting in liabilities for penalties. Specifically, extreme events such as floods can cause asset damage and service disruptions (equipment failures, blackouts, etc.) or, for the water network, overflowing of drains connected to wastewater systems and can cause turbidity of water springs. Such impacts may affect the provision of services in compliance with applicable laws and regulations, resulting in the risk of financial penalties. As indicated previously, also thanks to risk mitigation projects implemented, the potential economic/financial impacts associated with physical risks have been hypothesised as unchanged.

Geopolitical Situation

Economic trends were influenced by many factors, both geopolitical and economic: unresolved conflicts, still far

from a solution, with Russia/Ukraine at the head of the pack, as well as "new" conflicts, such as that between Israel and Hamas. At present, after the shocks of recent years, the global economy is nonetheless normalising, with most of the major imbalances evening out. 2023 saw a substantial loosening of tension on energy markets, given the gradual strengthening of downward trending fundamental: falling demand, mild winter and autumn temperatures and stocks consistently at historically high levels, as well as hydroelectric production and French nuclear availability recovering from the *annus horribilis* of 2022. Consequently, electricity and gas prices gradually fell until mid-year, converging at the levels seen in mid-2021 - the start of the energy crisis. The scars of this latest and changed global gas supply situation have made European markets very nervous and sensitive to the contingent international and geopolitical tensions that developed in the second half of the year, above all the outbreak of the Israel/Hamas conflict, which impeded further decreases. In its October 2023 World Economic Outlook, the International Monetary Fund predicted slowing global growth, with increasing regional differences and little room for economic policy errors.
Despite the economic resilience seen at the beginning of the year, thanks to progress in reducing inflation with respect to the peaks of the last year, economic activity is still below pre-pandemic objectives, above all in emerging markets and developing economies. As causes of the slowdown, the report indicates the war in Ukraine, growing fragmentation of the economy and other more cyclical aspects such as anti-inflationary monetary policies, elimination of public aid and extreme climate events. Additionally, if the Israel/Hamas conflict expands beyond the Gaza Strip, the consequences could be very serious also in economic terms, beyond the already existing humanitarian and political emergency. Moving on to commodities, during 2023 the Brent registered an average level of $82.22/bbl, down -17% with respect to the previous year. The decrease in prices seen during the first six months of the year reversed course in the third quarter, with daily peaks in September and October 2023 that had not been seen for about a year. The main elements underlying the increase in the autumn can be found in Saudi Arabia and Russia's confirmation of production cuts through the first quarter of 2024 (-1.3 Mbbl/day) and in the outbreak of the Israel/Hamas conflict, in a strategic area for global crude trading, above all in the case Iran were to join the conflict. Further increasing tensions towards the end of the year were the continuous attacks on ships and containers in the Red Sea by the Houthi, a Yemen rebel group supported by Iran, to which the United States responded with military action. Around 12% of global commerce and 30% of all cargo ships globally pass through this area. Nonetheless, it should be noted that the global macroeconomic situation of economic slowdowns and weak demand continues to weigh down oil prices, for the moment preventing excessive upward movement. The fourth quarter saw an average price level of $83.26/bbl, down -6% with respect to the fourth quarter of 2022, but up +5% with respect to the first nine months of 2023.

It should be remembered that the ESMA Public Statement of 28 October 2022 deals precisely with the effects of the Russian invasion of Ukraine on 2022 financial statements prepared following the standard IAS34. The Statement therefore has the objective of providing to the administrative and control bodies of regulated companies a series of recommendations on the process of producing the accounting disclosure, with particular emphasis on the controls necessary to check for any impairment (*impairment tests*) of non-financial assets.
The Statement stresses that the change of strategic, commercial and financial approach of companies following the conflict increased considerably the risk of significant impacts on the carrying amount of balance sheet assets and liabilities. The Statement therefore suggests reviewing and possibly updating the considerations made for the year-end financial statements, in particular the assumptions and the hypotheses on which the calculation of the prospective flows is based and the other elements that contribute to the estimate of the recoverable value.
The ESMA then recalls that in order to assess the existence of possible indications of impairment of non-financial assets included in the scope of IAS 36 (Impairment Testing), it is necessary to consider all the information sources, of both an external and an internal nature, to assess whether the effects of the geopolitical situation represent possible indications of impairment of the said assets. The Statement also stresses that the considerable increase in the general level of uncertainty caused by the conflict requires a careful assessment (in the context of estimating the recoverable value using the Value in Use method) of the forecast financial data used. To this end, the ESMA believes that, according to the type of asset to be tested and the related level of risk, it may be necessary to develop multiple scenarios around the forecast data considered, supported by reasonable and realistic parameters and estimation inputs. Again in this sense, there must in any case be consistency between the forecast data used and the assumptions associated with the same for the value checks, and between the choices and strategic plans formulated by companies in response to geopolitical tensions.
With reference to the discount rate used for the estimate of the recoverable value, the Statement stresses and recalls that the same must reflect the current market conditions and the specific risk characteristics associated with the specific assets subject to impairment tests (excluding the risk of assets already reflected in the forecast flows). The Statement stresses finally that the risks associated with the phenomena of rising market interest rates and the inflation rate could have an impact also on the discount rate to be used for the purpose of estimating the recoverable value of the assets to reflect the said phenomena, unless the said risks are already reflected in the calculation of the forecast flows used.

Development and technological innovation

For Acea, collaborations, partnerships and business systems represent a crucial driver for the positioning and improvement of the Acea Group in the innovation ecosystem, as well as helping to open new channels offering access to ideas, business and technological opportunities, academic research and new talent.
Acea participates in numerous partnerships and cooperative agreements linked to innovation; in fact, for several years the Group has actively participated in the Italian and international innovation ecosystem, sharing best practices and experiences.
Note to that end, the partnership with **InnovUp** (formerly Italia Startup), a non-profit that represents the ecosystem of Italian start-ups, including all entities, private and public, that support the development, visibility and growth of the same, to encourage the creation of a new Italian entrepreneurial system, as well as with **SEP** (Startup Europe Partnership), an Open Innovation programme that puts European scale-ups with corporations, and finally with **Open Italy**, a co-innovation programme promoted by ELIS and established to help associated corporations meet their needs through start-ups, innovative SMEs, university spin-offs and research centres.

Development of personnel

For every organisation people represent a fundamental asset to remain competitive in a changing economic and social context. Acea listens to the needs of its people and develops a People Strategy, structured into projects and initiatives.
Every year Acea prepares an Equality & Care Plan that identifies goals and associated projects for diversity and inclusion and corporate welfare. In 2022, Acea was included by the Financial Times and Statista in the special list of "Europe's Diversity Leaders 2023" and for the second consecutive year received Top Employers Italy Certification, official recognition of the excellence of the company's HR policies and strategies, and implementation of the same.
Acea has developed an integrated corporate welfare system, based on listening to employees and their needs and structure around six fundamental pillars: health, psycho/physical well-being, family, reconciliation measures, economic assistance and complementary social security. Numerous initiatives have been implemented to support these pillars, including preventive medicine campaigns, support services for psycho/physical well-being and support for parents. These areas are shared with a Bilateral Committee, consisting of representatives from Group companies and the Unions.
As part of its training processes, the Group has established the Acea Business School Academy that provides courses on managerial, position, governance and digital issues, serving the entire group and designed with qualified partners (universities, business schools, research centres, etc.).

Sustainable management of the supply chain

Aware of the positive contribution that sustainable supply chain management can offer to protecting the environment, Acea is committed to defining purchasing methods that include intrinsic characteristics of the products and aspects of the process that limit environmental impact and foster initiatives aimed at minimising waste, reusing resources and protecting the social aspects involved in the procurement of goods, services and works. In tackling this green procurement issue, Acea has been using the minimum environmental criteria in force for several years, including non-compulsory bonus aspects in its tender procedures.
Acea has always been at the service of the community and the public and therefore puts a high priority on open exchanges with the supply chain to be increasingly efficient in responding to local demands.
The creation of a sustainable chain depends on each company monitoring itself, as well as on agreements between all members in a given chain. Cooperation allows for more transparent and clear relationships, helping to create shared value:

- EcoVadis assessment
- Green purchases
- Reputational due diligence
- Management Systems – Supply Chain Verifications
- Vendor ratings
- Sustainability and safety.

Health and safety in the workplace

Acea carries out constant awareness campaigns on the subject, with the aim of profoundly affecting the widespread dissemination of a culture of safety involving all its people. It has implemented an advanced risk assessment model, not to mention control and mitigation measures. Acea has also launched a number of initiatives to raise awareness of and involvement in the issues discussed above with its contractors and sub-contractors, key business partners throughout the entire value chain.
Safety seen as strategy, and not only as compliance, is based on the possibility of measuring and monitoring the results in a managerial approach. In the context of the process of continuous improvement that it has undertaken, oriented to the prevention and reduction of injuries, Acea provides all its people with a valid and effective instrument for the purposes of active participation in analysing the trend of indicators; this aspect is often considered a measure of the level of maturity of the culture of safety and the culture of improvement in an organisation. Improvement actions based on the realisation that there are margins to pursue (for example actions to reduce the proportion of some types of injury) and consolidation actions (for example maintaining positive results, growing organisational resilience), represent the natural process of continual improvement in the field of workplace health and safety.

OPERATING SEGMENTS

The macrosectors in which Acea works are broken down into the industrial segments listed below.

ENVIRONMENT

Sludge management
Treatment, recycling, waste-to-energy and **waste** disposal
Management of **recyclable plastics**

WATER

Integrated Water Service in Italy
Gas distribution
Development of initiatives outside of Italy

ENGINEERING & INFRASTRUCTURE PROJECTS

Laboratory analysis
Engineering & **Consultancy**

COMMERCIAL

Energy management
Sale of electric energy and gas
Energy efficiency for home clients

PRODUCTION

Electricity **generation**
Cogeneration
Photovoltaic

NETWORKS & SMART CITIES

Distribution and **Measure**
Public Lighting

TREND OF OPERATING SEGMENTS

ECONOMIC RESULTS BY SEGMENT

The results by segment are shown on the basis of the approach used by the management to monitor Group performance in the financial years compared in observance of IFRS 8 accounting standards. Note that revenue includes the condensed result of equity investments (of a non-financial nature) consolidated using the equity method. The Water Segment also includes the financial statements of companies in the gas distribution segment and ASM Terni.

31/12/2023

€ milion	Environment	Commercial	Water	Water (Overseas)	Production	Networks & Smart Cities	Engineering & Infrastructure Projects	Corporate	Consolidation adjustments	Consolidated Total
Revenues	334	2,483	1,494	97	131	628	116	145	(764)	4,664
Costs	250	2,354	750	61	77	253	106	187	(764)	3,273
EBITDA	**84**	**129**	**744**	**36**	**54**	**375**	**10**	**(42)**	**0**	**1,391**
Depreciation/ amortisation and impairment losses	59	70	419	15	20	154	8	34	(0)	779
Operating profit/(loss)	**25**	**59**	**325**	**21**	**34**	**221**	**2**	**(75)**	**0**	**612**
Capex	39	50	682	6	41	300	5	20	0	1,143

31/12/2022

€ milion	Environment	Commercial	Water	Water (Overseas)	Production	Networks & Smart Cities	Engineering & Infrastructure Projects	Corporate	Consolidation adjustments	Consolidated Total
Revenues	342	3,160	1,374	95	175	606	118	152	(857)	5,166
Costs	241	3,070	705	62	85	254	104	196	(857)	3,861
EBITDA	**102**	**90**	**669**	**33**	**90**	**352**	**13**	**(44)**	**0**	**1,305**
Depreciation/ amortisation and impairment losses	43	68	400	14	15	150	9	40	0	739
Operating profit/(loss)	**59**	**22**	**269**	**19**	**75**	**202**	**4**	**(84)**	**0**	**566**
Capex	46	50	611	6	30	269	6	33	0	1,050

ENVIRONMENT

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS

Operating data

	U.M.	2023	2022	Change	% Change
WTE conferment	kt	375.9	389.8	(13.8)	(3.6%)
MBT waste and landfill	kt	474.0	400.0	74.0	18.5%
Conferments to composting plants	kt	156.0	149.0	7.0	4.7%
Conferments to selection plants	kt	339.2	286.8	52.4	18.3%
Intermediated waste	kt	160.8	166.0	(5.3)	(3.2%)
Liquids treated at plants	kt	322.3	323.0	(0.7)	(0.2%)
Waste produced	kt	484.9	451.2	33.7	7.5%
WTE net electricity sold	GWh	278.3	293.8	(15.5)	(5.3%)

Equity and financial results

€ milion	2023	2022	Change	% Change
Revenues	334.3	342.4	(8.1)	(2.4%)
Costs	249.9	240.8	9.1	3.8%
EBITDA	84.4	101.6	(17.2)	(17.0%)
Operating profit/(loss)	25.4	58.5	(33.2)	(56.7%)
Average workforce	875	875	0	0.0%
Capex	38.9	46.2	(7.3)	(15.9%)

EBITDA

€ milion	2023	2022	Change	% Change
EBITDA – Environment Segment	84.4	101.6	(17.2)	(17.0%)
EBITDA – Group	1,390.9	1,305.0	85.9	6.6%
Percentage	6.1%	7.8%	(1.7 p.p.)	

The Environment Segment closed 2023 with an EBITDA of € 84.4 million, down by € 17.2 million (-17.0 % over the previous year). The change was mainly due to lower margins for **Acea Ambiente** (-€ 25.5 million) as a consequence of: i) lower CO_2 sales (-€ 11.1 million), lower compost margins due in part to the energy scenario (-€ 4.6 million) and in part lower quantities of energy sold to WTE plants (-€ 0.4 million); ii) lower margins deriving from composting business, for the most part due to lower volumes and lower tariffs from the Aprilia (-€ 4.3 million) and Monterotondo plants (-€ 1.0 million); iii) recognition of costs linked to the waste to energy plant in Rome (+€ 2.7 million). Also contributing to the reduction was the lower margin from the **Orvieto** landfill, both due to lower quantities entering and the price effect (-€ 2.3 million) and **S.E.R. Plast** due to both the price effect and an increase in waste (-€ 2.1 million).

This change was offset by the change in scope (+€ 13.4 million), following the consolidation of **Tecnoservizi** (+€ 2.4 million) and the Polo Cirsu business unit, acquired from **Acea Ambiente** (+€ 11.0 million).

The average number of staff at 31 December 2023 was 875, in line with 31 December 2022.

Segment investments came out at € 38.9 million (-€ 7.3 million compared to 31 December 2022) and refer mainly to the investments made by **Acea Ambiente** (€ 21.7 million) for system improvements carried out at the San Vittore plants and at the WTE plant in Terni and **AS Recycling** (€ 4.8 million), for the construction of the plastic SRF recycling plant in Borgorose.

COMMERCIAL

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS

Operating data

	U.M.	2023	2022	Change	% Change
Electrical energy sold - Free	GWh	5,602.7	6,331.1	(728.4)	(11.5%)
Electrical energy sold – Gradual Protection	GWh	169.5	0.0	169.5	n.s.
Electrical energy sold - Protected	GWh	1,032.8	1,411.0	(378.2)	(26.8%)
Electricity - Free market customers (POD)	no./1,000	639.4	535.2	104.2	19.5%
Electrical Energy – Gradual Protection Customers (POD)	no./1,000	95.1	0.0	95.1	n.s.
Electrical Energy - No. Protected Market customers (POD)	no./1,000	509.2	646.8	(137.6)	(21.3%)
Gas sold	MSmc	198.9	208.4	(9.5)	(4.6%)
Gas - No. Free Market customers	no./1,000	306.3	247.8	58.5	23.6%

Economic and financial results

€ milion	2023	2022	Change	% Change
Revenues	2,483.0	3,159.7	(676.7)	(21.4%)
Costs	2,353.7	3,069.7	(716.0)	(23.3%)
EBITDA	129.3	90.0	39.3	43.7%
Operating profit/(loss)	58.9	22.0	36.9	167.5%
Average workforce	450	445	5	1.1%
Capex	50.2	49.6	0.6	1.2%

Economic and financial resultsv

€ milion	2023	2022	Change	% Change
EBITDA-Commercial Ssegment	129.3	90.0	39.3	43.7%
EBITDA – Group	1,390.9	1,305.0	85.9	6.6%
Percentage	9.3%	6.9%	2.4 p.p.	

The Segment, responsible for the management and development of electricity and gas sales and related customer relationship activities as well as the Group's energy management policies, closed 2023 with an EBITDA of € 129.3 million, an increase of € 39.3 million compared to 2022.
The change is mainly attributable to **Acea Energia** (+€ 31.5 million), due to the net improvement in the Energy and Gas margin (+€ 24.7 million), lower operating costs (€ 4.4 million) and greater revenues from penalties (€ 2.0 million). Also contributing to the increase in this area was **Acea Innovation** (+€ 6.8 million) as a result of higher margins on e-mobility, smart services and smart comp activities.
With respect to effects on the primary energy margin, note:

- an improvement in the margin for the **electricity free market** (+€ 27.5 million), driven by performance in the Domestic Retail segment (average customer base +20% and unit margin +40%); on the other hand, the **Gradual Protection Service** margin was € 6.0 million;
- a reduction in margins relative to the **Greater Protection** Service (-€ 13.9 million), in part due to the automatic assignment of non-domestic customers and micro-businesses ("Other uses") to the Gradual Protection Service as of 1 April 2023 and in part to the "natural" loss of Greater Protection Service customers to the Free Market (-8%), not counterbalanced by application of higher tariffs;
- an improvement in the margin for the **gas market** of € 29.6 million due to higher unit margins in the B2C sector (77%), combined with an increase in the average Customer Base (21%) and in volumes (22%), while general volumes in the Business sector fell due to fewer customers (-30%).
- a reduction in the Energy Management margin for **optimisation of energy flows** (-€ 24.5 million compared to the previous year) due to the progress loosening of commodity price tensions seen on wholesale energy markets.

With reference to the workforce, the average number at 31 December 2023 stood at 450 employees, slightly up compared to 31 December 2022 by 5 employees.
Investments by the Segment amounted to € 50.2 million, a small increase of € 0.6 million compared to 31 December 2022. Total investments mainly related to **Acea Energia** and mostly referred to the cost of acquiring new customers in accordance with IFRS15 (€ 32.0 million). The smart services and e-mobility projects (€ 2.9 million) developed by **Acea Innovation** also contributed to the investments of the Segment.

WATER

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS

Operating data

	U.M.	2023	2022	Change	% Change
Water volumes	Mm³	383.8	389.4	(5.5)	(1.4%)
Energy consumed	GWh	544.5	573.9	(29.3)	(5.1%)
Sludge disposed of	kt	142.7	147.4	(5)	(3.2%)

Equity and financial results

€ milion	2023	2022	Change	% Change
Revenues	1,493.7	1,374.4	119.3	8.7%
Costs	749.8	705.4	44.4	6.3%
EBITDA	743.9	669.0	75.0	11.2%
Operating profit/(loss)	325.0	268.7	56.3	21.0%
Average workforce	3,969	3,891	78	2.0%
Capex	682.4	611.0	71.4	11.7%

Equity and financial results

€ milion	2023	2022	Change	% Change
EBITDA – Water segment	743.9	669.0	75.0	11.2%
EBITDA – Group	1,390.9	1,305.0	85.9	6.6%
Percentage	53.5%	51.3%	2.2 p.p.	

The EBITDA for the Segment stood at € 743.9 million at 31 December 2023, an increase of € 75.0 million compared to 31 December 2022 (+11.2%). The increase mainly derives form higher margins, relative to the increase in water tariff revenue, relative to non-pass-through items (+€ 37.0 million), in part influenced by the two year tariff update for 2022-2023. Also contributing to the increase is **Gori's** recognition of contributions for Regional Works for the years 2018-2021 (+€ 5.3 million) and the change in the scope following the consolidation of **ASM Terni** (+€ 9.9 million). The contribution to EBITDA made by the water companies measured using the equity method, equal to € 21.2 million, was down with respect to the previous year (-€4.4 million) as a consequence of greater amortisation/depreciation recognised by the Acque Group. The contribution to EBITDA of the companies valued at shareholders' equity is detailed below:

€ million	2023	2022	Change	% Change
Publiacqua	9.3	8.6	0.8	9.2%
Acque Group	7.4	11.3	(3.9)	(34.6%)
Umbra Acque	2.9	3.3	(0.5)	(13.8%)
Nuove Acque and Intesa aretina	0.5	0.5	0.0	7.7%
Geal	0.9	1.1	(0.2)	(14.6%)
Umbria Distribuzione Gas	0.1	0.0	0.1	n.s.
Romeo Gas	0.0	0.8	(0.8)	(100.0%)
Total	**21.2**	**25.6**	**(4.4)**	**(17.0%)**

The quantification of the revenues deriving from management of the integrated water service is the consequence of application of the new water tariff method for the third regulatory period (MTI-3), as approved by the Authority (ARERA) with Resolution no. 580/2019/R/idr of 27 December 2019, taking into account the approval of the 2022-2023 tariff provisions which occurred in the meantime. For more details, please see the section "Progress of the procedure for approving tariffs" in this document.
The average workforce as of 31December 2023, equal to 3,969, increased by 78 compared to 31 December 2022, mainly attributable to the consolidation of **Acea Ato2** (+24 employees) and **Adistribuzionegas** (+18 employees), as a consequences of the ac-

quisition of the business unit deriving from the partial demerger of Romeo Gas in October 2022.
Investments by the Segment amounted to € 682.4 million, an increase of € 78.0 million compared to the previous year. The increase is mainly due to greater investments recognised by **Gori** (+€ 75.3 million), consequent to more works financed (maintenance and development), in part offset by lower investments by **Acea Ato2** (-€ 20.9 million) mainly due to lower investments in maintenance and development. The investments refer mainly to extraordinary maintenance work, reconstruction, modernisation and expansion of plants and networks, the reclamation and expansion of water and sewer pipes of the various Municipalities and work on purification and transport plants (ducts and feeders). The change in scope involving consolidation of **ASM Terni** contributed to the increase (+€ 5.1 million).

WATER (OVERSEAS)

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS

Operating data

	U.M.	2023	2022	Change	% Change
Water Volumes	Mm^3	42.7	41.9	0.8	1.8%
Volumes fed into the grid	Mm^3	77.8	76.0	1.8	2.3%
Number of customers (user accounts served)	no.	124,384.0	123,433.0	951.0	0.8%

Economic and financial results

€ milion	2023	2022	Change	% Change
Revenues	96.7	95.1	1.6	1.7%
Costs	61.0	62.1	(1.1)	(1.8%)
EBITDA	35.7	33.0	2.7	8.3%
Operating profit/(loss)	20.9	19.4	1.5	7.8%
Average workforce	2,478	2,474	4	0.2%
Capex	5.7	5.8	(0.1)	(1.4%)

Economic and financial results

€ milion	2023	2022	Change	% Change
EBITDA Water (Overseas)	35.7	33.0	2.7	8.3%
EBITDA – Group	1,390.9	1,305.0	85.9	6.6%
Percentage	2.6%	2.5%	0.0 p.p.	

The Segment currently includes companies managing water services in Latin America and ended 2023 with EBITDA of € 35.7 million, up by € 2.7 million with respect to 31 December 2022. The increase is mainly attributable to **Aguas de San Pedro** (+€ 3.9 million) due to higher invoiced volumes (1.8%) as well as to a rate increase due to inflation. This increase offset the reduction recorded by Acea Dominicana (-€ 1.2 million) following the termination of the contract with CAASD on 30 September 2023.

The average number of staff at 31 December 2023 was 2,478, in line with units at 31 December 2022.
Investments during the period came to € 5.7 million, slightly down (-€ 0.1 million) with respect to the previous year and almost entirely relative to investments made by **Aguas de San Pedro** in relation to integrated water service management for the city of San Pedro Sula, in Honduras.

NETWORKS & SMART CITIES

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS

Operating data

	U.M.	2023	2022	Change	% Change
Electricity distributed	GWh	9,050	9,355	(305)	(3.3%)
No. of Customers	no./1,000	1,662	1,653	9	0.5%
Km of Grid (MV/LV)	km	32,144	31,768	376	1.2%
2G Metering Groups	no.	333,664	273,294	60,370	22.1%

Economic and financial results

€ milion	2023	2022	Change	% Change
Revenues	628.4	606.5	22.0	3.6%
Costs	253.0	254.3	(1.3)	(0.5%)
EBITDA	375.4	352.2	23.3	6.6%
Operating profit/(loss)	221.5	201.9	19.6	9.7%
Average workforce	1,269	1,262	7	0.6%
Capex	299.6	268.8	30.8	11.5%

Economic and financial results

€ milion	2023	2022	Change	% Change
EBITDA Networks & Smart Cities segment	375.4	352.2	23.3	6.6%
EBITDA – Group	1,390.9	1,305.0	85.9	6.6%
Percentage	27.0%	27.0%	0.0 p.p.	

The EBITDA for the segment at 31 December 2023 was € 375.4 million, showing an increase of € 23.3 million compared to 31 December 2022. EBITDA for **areti** was up by € 20.3 million, thanks to tariff growth, in particular from energy balancing (+€ 16.1 million) and greater revenue from penalties and compensation (+€ 2.0 million). The effects of the resilience plan offset this increase (-€ 3.0 million). With reference to the energy balance, at 31 December 2023, **areti** had distributed 9,050 GWh to end customers, down by 3.3% with respect to the previous year. EBITDA from **public lighting**, involving management of the public lighting service in the Municipality of Rome, came to € 3.9 million, an improvement of € 3.0 million with respect to the same period the previous year following extraordinary maintenance and security activities, and extraordinary items from previous years.

The average number of employees increased slightly compared to the previous year (+7 employees).

The operating result increased by € 19.6 million compared to 31 December 2022 and was affected by higher depreciation/amortisation (+€ 9.6 million) due to the combined effect of higher depreciation/amortisation of software purchased in previous periods and investments made on the distribution network and industrial and commercial equipment. This effect was partially offset by lower impairment of receivables (-€ 2.0 million) relating to user customers/users and lower provisioning in relation to the provision for staff mobility (-€ 3.9 million).

Investments amounted to € 299.6 million, an increase of € 30.8 million compared to the previous year, due to greater network expansion and modernisation projects. The investments refer to areti and are attributable to the expansion and upgrading of the HV, MV and LV grids, the mass replacement of 2G metering groups, work on the primary stations, secondary substations and meters, and remote control equipment as part of the grid "Adequacy and Safety" and "Innovation and Digitalisation" projects, all intended to improve the quality of the service and increase resilience. Intangible investments refer to projects for the re-engineering of information and commercial systems. The **public lighting** sector contributed for € 1.2 million.

PRODUCTION

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS

Operating data

	U.M.	2023	2022	Change	% Change
Energy produced	GWh	581.6	504.1	77.5	15.4%
of which hydro	*GWh*	*418.9*	*329.9*	*89.0*	*27.0%*
of which thermal	*GWh*	*162.7*	*174.2*	*(11.5)*	*(6.6%)*
(Photovoltaic) energy produced	GWh	133.9	125.2	8.7	7.0%
Energy produced (cogeneration)	GWh	34.1	32.2	1.9	6.0%

Economic and financial results

€ milion	2023	2022	Change	% Change
Revenues	130.8	175.3	(44.4)	(25.3%)
Costs	77.0	85.4	(8.4)	(9.9%)
EBITDA	53.9	89.8	(36.0)	(40.0%)
Operating profit/(loss)	33.7	75.3	(41.6)	(55.2%)
Average workforce	97	92	5	5.2%
Capex	41.1	30.3	10.8	35.7%

Economic and financial results

€ milion	2023	2022	Change	% Change
EBITDA Production segment	53.9	89.8	(36.0)	(40.0%)
EBITDA – Group	1,390.9	1,305.0	85.9	6.6%
Percentage	3.9%	6.9%	(3.0 p.p.)	

EBITDA at 31 December 2023 came to € 53.9 million, down by € 36.0 million with respect to 31 December 2022, for the most part attributable to **Acea Produzione** (-€ 22.5 million) as a consequence of lower margins, which suffered from the significant reduction in energy market prices (the average DAM price in 2023 was € 126/MWh compared to € 298/MWh in 2022), in part offset by greater quantities of energy produced by hydroelectric power plants (+89 GWh).
EBITDA for the **photovoltaic** segment fell by € 13.4 million, in part influenced by the change in the scope (-€ 4.7 million) due to the loss of control over a photovoltaic holding in the Acea Group (Acea Sun Capital) as of April 2022 and in part the impairment of plants subject to revamping (-€ 9.1 million).
The average workforce increased slightly (+5 units) compared to the previous year; note that the photovoltaic companies do not have employees.
Investments amounted to € 41.1 million and increased by € 10.8 million compared to the previous year, mainly due to greater investments made by **Acea Solar** to construct photovoltaic systems both on agricultural and industrial land. Investments made by **Acea Produzione** totalled € 8.3 million, down with respect to the previous year (-€ 1.9 million) and mainly involving work to redevelop and maintain hydroelectric power plants.

ENGINEERING & INFRASTRUCTURE PROJECTS

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS

Operating data

	U.M.	2023	2022	Change	% Change
Number of projects	no.	60	75	(15)	(20.0%)
Number of EPC work sites	no.	27	31	(4)	(12.9%)
Number safety inspections	no.	14,443	14,913	(470)	(3.2%)
Number determinations	no.	1,039,344	1,017,004	22,340	2.2%
Number samples	no.	34,020	34,012	8	0.0%
Waste volume processed	t	7,510	9282	(1,772)	(19.1%)
Water volume processed	m^3	1,704,904	1,766,497	(61,593)	(3.5%)

Economic and financial results

€ milion	2023	2022	Change	% Change
Revenues	115.6	117.6	(2.0)	(1.7%)
Costs	105.7	104.4	1.3	1.2%
EBITDA	9.9	13.2	(3.3)	(24.8%)
Operating profit/(loss)	2.0	3.7	(1.7)	(46.1%)
Average Workforce	478	456	22	4.9%
Capex	4.7	5.8	(1.1)	(18.8%)

Economic and financial results

€ milion	2023	2022	Change	% Change
EBITDA Engineering & Infrastructure Projects segment	9.9	13.2	(3.3)	(24.8%)
EBITDA – Group	1,390.9	1,305.0	85.9	6.6%
Percentage	0.7%	1.0%	(0.3 p.p.)	

EBITDA for the segment at 31 December 2023 came to € 9.9 million, down by €3.3 million with respect to the previous year. This change is due to **SIMAM** (-€ 3.1 million) due to lower construction and water treatment business with respect to the previous year and to **TWS** (-€ 0.4 million) due to the reduction in the construction and project management margin due to postponing of work orders. The average workforce at 31 December 2023 stood at 478 and was up compared to 31 December 2022 (456 employees). The change is mainly attributable to **SIMAM** (+23 employees).

Investments amounted to € 4.7 million, up by € 1.1 million compared to the previous year. Investments in the segment were mainly made by **Acea Infrastructure** (€ 2.2 million), to purchase equipment and software.

CORPORATE

OPERATING FIGURES, EQUITY AND FINANCIAL RESULTS

Economic and financial results data

€ milion	2023	2022	Change	% Change
Revenues	145.2	152.2	(7.0)	(4.6%)
Costs	186.8	195.9	(9.1)	(4.7%)
EBITDA	(41.6)	(43.7)	2.1	(4.7%)
Operating profit/(loss)	(75.4)	(83.7)	8.3	(9.9%)
Average workforce	733	717	16	2.3%
Capex	20.1	32.7	(12.6)	(38.4%)

Economic and financial results

€ milion	2023	2022	Change	% Change
EBITDA – Corporate segment	(41.6)	(43.7)	2.1	(4.7%)
EBITDA – Group	1,390.9	1,305.0	85.9	6.6%
Percentage	(3.0%)	(3.3%)	0.4 p.p.	

Corporate closed at 31 December 2023 with negative EBITDA of € 41.6 million, an increase of €2.1 million compared to the same period in 2022. The change is mainly due to cost efficiencies, partially counterbalanced by higher personnel expense, as a consequence of contractual adjustments and increased staff.
EBIT is negative at € 75.4 million, an € 8.3 million improvement over the previous year, as a result on the one hand, of the increase in EBITDA, and on the other hand, of lower provisioning, in particular with reference to staff mobility.

The average workforce at 31 December 2023 stood at 733, an increase of 16 compared to 2022 (717 units).
Investments amounted to € 20.1 million (€ 32.7 million at 31 December 2022), down with respect to the same period the previous year and mainly refer to software licenses, IT development and investments in company offices.

SIGNIFICANT EVENTS DURING THE PERIOD AND AFTERWARDS

Acea: successful placement of a € 500 million Green Bond and subsequent € 200 million TAP issue

On 17 January 2023, Acea successfully completed the placement of a Green Bond issue for a total amount of € 500 million, interest rate of 3.875%, maturing on 24 January 2031.

The issue, which is part of the Green Financing Framework and the € 5 billion Euro Medium Term Notes (EMTN) programme, was a great success, receiving more than 3 times the amount offered from primary investors coming from numerous geographic areas, mainly in the green sector.

The profits will be used to finance specific projects with sustainability goals, in particular those relative to resilience of the electricity distribution grid, energy efficiency, electric mobility, development of the circular economy, increasing energy produced from renewable sources and protection of water resources. The issue is intended exclusively for institutional investors in the Euromarket.

On 3 February 2023 Acea successfully completed the reopening of the Green bond issue carried out on 17 January 2023 (rate 3.875%, maturity 24 January 2031) for an amount of € 200 million ("TAP Issue"). The TAP Issue received requests equal to over 1.5 times the amount offered. The securities, with a minimum unit of € 100,000 and a rate of 3.875%, were placed at an issue price of 100.368%, implying a return of 3.820% or 105 basis points above the midswap rate, offering a further improvement on the already very satisfactory terms of the original issue.

Acea reaches 100% of Deco: the remaining 35% of the company acquired, the main operator in the Abruzzo environmental sector

On 23 January 2023, Acea acquired the remaining 35% of Deco's share capital, a company operating in the waste sector in Abruzzo in which it already held a 65% stake, with the closing of the acquisition occurring in November 2021. The company designs, constructs and manages plants for the treatment, disposal and recovery of municipal solid waste and plants for energy recovery from renewable sources.

Acea: Michaela Castelli resigns from the position of Chairman for personal reasons

Acea notes that, on 14 February 2023, the lawyer Michaela Castelli resigned with immediate effect from her position as Director and Chairman of the Acea Spa Board of Directors.

Acea: Barbara Marinali appointed as the new Chairman of the Board of Directors

On 17 February 2023, the Acea SpA Board of Directors, on a proposal by the Appointments and Remuneration Committee and with a resolution approved by the Board of Statutory Auditors, appointed by co-optation, under the terms of Art. 2386 of the Italian Civil Code and Art. 15 of the By-Laws, Barbara Marinali as a new non-executive Director of the Company, replacing Michaela Castelli who resigned on 14 February 2023. The Board of Directors also appointed Barbara Marinali as the Chairman of the Board of Directors.

Acea: indication of interest in the Rome waste to energy plant presented

On 1 March 2023, Acea Ambiente, a subsidiary of Acea, responded to the public notice issued by the municipality of Rome to find economic operators interested in presenting project financing proposals for assignment of the systems hub concession relative to the design, authorisation, construction and management of a waste-to-energy plant and correlated ancillary systems.

Acea Ambiente presented its indication of interest with other national and international partners, including Hitachi Zosen Inova, Vianini Lavori and Suez, following favourable determinations by the relevant corporate bodies of Acea Ambiente and Acea (also pursuant to the provisions of the Acea Group Related Party Transactions Procedure).

Acea: 2023 ESR Top Utility Research and Innovation

On 9 March 2023, Acea was awarded the ESR Top Utility Research and Innovation prize. Acea won in the Research and Innovation category for "its ability to develop research projects that apply innovative digital and cybersecurity technologies to remote control systems of physical infrastructure, experiment with secure ICT platforms that enable widespread and small-scale users to participate in energy flexibility markets, and involve researchers, operators, manufacturers and start-ups in the process of technological innovation".

Acea: Fitch Ratings confirms Acea's BBB+ rating and changes the outlook from stable to negative

On 15 March 2023, Fitch Ratings confirmed Acea's Long-Term Issuer Default Rating (IDR) at BBB+, its Short-Term IDR at F2 and the Long-Term Senior Unsecured Rating at BBB+. At the same time, the Agency announced that it had changed the outlook on the Company from stable to negative. The change in the outlook reflects expectations on the increase in leverage, due to the absorption of cash due to working capital trends and the acceleration of the Group's investments related to 2022. The confirmation of the BBB+ rating reflects Acea's strategic focus on regulated activities, together with the solidity of operating management.

Acea: Shareholders' Meeting approves 2022 Financial Statements, appoints new Board of Directors and confirms € 0.85 dividend

On 18 April 2023, the Shareholders' Meeting of Acea SpA, in first call, in Extraordinary and Ordinary session, approved the financial statements and consolidated financial statements for the year ended 31 December 2022, resolved on the allocation of the profit for 2022 and appointed the new Board of Directors.

The Extraordinary Shareholders' Meeting approved the amendment to Article 15 of the By-Laws. The Ordinary Shareholders' Meeting thus set the number of members of the Board of Directors at 13 and resolved to appoint the new Board of Directors, which will remain in office for three years, namely until the approval of the Financial

Statements for 2025. The election of the members of the Board of Directors took place by list voting, according to the procedures set forth in Article 15 of the By-Laws in the new formulation approved by the Shareholders' Meeting.
The following are elected to the new Board of Directors:

- Barbara Marinali, Fabrizio Palermo, Nathalie Tocci, Angelo Piazza, Elisabetta Maggini, Alessandro Picardi and Luisa Melara, on the basis of the list submitted by the shareholder Roma Capitale, owner of 51% of the share capital of Acea SpA, which obtained the majority of the votes (approx. 68.08% of the shares admitted to vote);
- Thomas Devedjian and Vincenza Patrizia Rutigliano, on the basis of the list submitted by the shareholder Suez International SAS, owner of 23.33% of the share capital of Acea SpA;
- Alessandro Caltagirone and Massimiliano Capece Minutolo Del Sasso, on the basis of the list presented by the shareholder Fincal SpA, owner of 3.19% of the share capital of Acea SpA;
- Antonino Cusimano and Antonella Rosa Bianchessi, on the basis of the list presented by a group of asset management companies and institutional investors, holding a total of 1.17% of the share capital of Acea SpA.

Pursuant to the relevant regulations and By-Laws, the gender distribution criterion was respected.
Barbara Marinali was confirmed as the new Chairperson of the Board of Directors.

Acea and ASM Terni: second closing of the Umbrian integrated multi-utility completed

On 20 April 2023, the second closing was finalised, concluding the corporate merger between Acea, ASM Terni, and the municipality of Terni, following the public procedure initiated by ASM Terni. Following the completion of this agreement, Acea's stake in ASM Terni's share capital rises to 45% and the Umbrian utility acquires 20% of the capital of Orvieto Ambiente, Acea Ambiente's spin-off company. This strengthens Umbria's first integrated multi-utility, an industrial company active in the water sector, waste management, power generation and the distribution and sale of electricity and gas.

Acea: acquisition of SIMAM completed

On 21 April 2023, Acea completed the acquisition of the remaining 30% of SIMAM (Servizi Industriali Manageriali Ambientali), a company specialising in the engineering, construction and management of water and waste treatment plants, in environmental works and reclamation, with hi-tech integrated solutions. Over the last three years, Acea has developed new skills, know-how, and implemented new high-tech solutions in the field of design and project management, consolidating its capabilities in the construction and maintenance of infrastructures, for an increasingly sustainable, innovative and efficient management of services related to its business.

Acea: the new Board of Directors confirms Fabrizio Palermo as CEO

On 3 May 2023, Acea's Board of Directors appointed Fabrizio Palermo as CEO and General Manager of the company, and granted him the powers for the ordinary management of the company and the group. In addition to the statutory functions of representation, the Chairperson, Barbara Marinali, was granted specific powers by the Board, including those relating to Corporate Governance. During the same meeting, the Board of Directors also appointed Fabio Paris as Acea SpA's Financial Reporting Officer.

Acea: Employee and Participation Charter Signed with the Trade Unions

On 15 May 2023, Acea and the trade unions signed the "Acea Employee and Participation Charter" protocol, following negotiations with the unions that began in February. The Protocol was signed by FILCTEM-CGIL, FLAEI-CISL, FEMCA-CISL and UILTEC-UIL, as well as by CISAL Federenergia, UGL Chimici Energia, USB Lavoro Privato and Associazione Capi Intermedi e Quadri. The Protocol outlines an updated model for industrial relations based on even more constant and integrated dialogue, with the aim of strengthening union relations, taking advantage of involvement and centring people.

Acea: partnership agreement signed with Acquedotto Pugliese

On 21 June 2023, at the Water Innovation Summit in Bari, the two companies signed a memorandum to develop cooperation and projects to protect water resources, for technical development and regulatory aspects in the sector. Acea and Acquedotto Pugliese (AQP), the two main Italian operators in the integrated water service sector, signed a memorandum for joint development of cooperative projects with reference to protecting water resources and technological innovation. The memorandum of understanding was signed by the Chief Executive Officer of Acea, Fabrizio Palermo, and the Chairman of AQP, Domenico Laforgia, with the aim of sharing their respective skills in the water sector, to provide effective and technologically advanced management and operating solutions for national infrastructure.

Acea: Sabrina Di Bartolomeo appointed as Financial Reporting Manager

On 23 June 2023, after receiving a favourable opinion from the Board of Statutory Auditors and effective immediately, the Acea Board of Directors appointed Sabrina Di Bartolomeo as Financial Reporting Manager, responsible for preparing the corporate accounting documents pursuant to article 154-bis of Italian Legislative Decree 59/98, as Acea's Chief Financial Officer, replacing Fabio Paris who, after ending his time with Acea, indicated his renunciation of the position.

Acea: € 435 million from the European Investment Bank to improve the quality and resilience of the water service

On 6 July 2023, the first € 235 million tranche of the Acea-EIB loan was signed, out of a total of € 435 million approved by the EIB Board of Directors. The investments financed with these EIB resources will help to improve the coverage and quality of the integrated water service in the area operated by Acea Ato 2, reducing water loss and improving energy efficiency. Thanks to the support from the EIB, Acea will also increase the resiliency of the water service with respect to future extreme weather events such as droughts. Strengthening and improving infrastructure to provide a more efficient and resilient water service for citizens is the main objective for the € 435 million loan granted to Acea by the EIB. The signing occurred in Rome, with the EIB Director General of Operations Jean-Christophe Laloux and Sabrina Di Bartolomeo, Chief Financial Officer at Acea.

Acea: Standard Ethics increases the sustainability rating

On 12 July 2023, Standard Ethics increased Acea's Corporate

Standard Ethics Rating (SER) to "EE+" from the previous "EE", with a Positive outlook. The company first received a Corporate SER in 2019. The Company is a member of the SE Mid Italian Index and the SE European Multi-Utilities Index.

Acea: National Framework Protocol to support legality

On 19 July 2023, the Minister of the Interior Matteo Piantedosi and Acea CEO Fabrizio Palermo signed a National Framework Protocol to support legality, with the aim of strengthening shared efforts to combat potential sources of corruption and the risk of organised crime infiltrating sectors of national strategic importance, including management of hydroelectric networks and waste.

Acea: A new organisation to face future challenges

On 12 September 2023, Acea launched a new corporate organisation based on three aspects: welcoming new professionals, generational turnover and including women in top level positions. The new organisation included the establishment of two new deputy generals with relative staff: The Deputy General Manager Corporate And Deputy General Manager Operations.

Acea: the Acea Group obtains validation of its greenhouse gas (GHG) reduction goals from the Science Based Targets Initiative (SBTi)

On 14 September 2023, Acea received validation of its greenhouse gas (GHG) reduction goals from the Science Based Targets Initiative (SBTi). The targets assessed involve both direct and indirect greenhouse gas emissions. Certification represents a significant acknowledgement of the decarbonisation process begun by Acea to support the energy transition. The Acea Group is committed to achieving the following goals: reducing GHG emissions per MWh of energy generated by 56% by 2032, with respect to 2020; over the same period of time, reduce indirect GHG emissions by 32% and those driving from energy production and procurement of fuels and energy, including that sold, by 56%; finally, reducing emissions due to gas disbursed and sold to customers by 30%. SBTi assessed Acea's goals in line with the "*Well below 2°C*" trajectory, the goal established in the 2015 Paris Accords to limit the increase in global temperature to well below 2°C, with respect to pre-industrial levels.

Acea: Legality Protocols

On 15 September 2023, Acea and the Prefecture of Rome signed four Legality Protocols for the construction sites for major water works in the capital city.

Acea: the Board of Directors approves the proposed settlement with Roma Capitale for Public Lighting

On 27 September 2023, the Acea Board of Directors approved a proposal for a possible settlement agreement with Roma Capitale intended to govern their reciprocal positions and the methods for an early consensual termination of the contractual relationship between the parties relative to the Public Lighting service provided by the Acea Group. Given its status as an essential public service under applicable regulations, the consensual termination will necessarily occur on the date the operator that wins the tender called by Roma Capitale effectively takes over the service. With reference to the economic terms of this possible Settlement Agreement, substantially in line with the City Executive Committee resolution 312 of 11 August 2022, following the reciprocal renunciation by the parties, the agreement calls for the recognition of receivables due to the Acea Group from Roma Capitale for a total of around € 100.6 million. The settlement will not have significant financial impacts at 31 December 2023, as the companies have already updated their estimates based on the criteria established in applicable law. The Settlement Agreement, the contents of which mirror the communication between the parties following the AGCM opinion issued on 1 December 2020, can be carried out after the Roma Capital decision making process has been successfully completed. The possible signing of the Settlement Agreement is a very significant related party transaction, pursuant to Acea's RPT procedure, as well as to Annex 1 to the Regulations adopted by CONSOB with Resolution 17221 of 12 March 2010, given that Acea is controlled by Roma Capitale, pursuant to article 2359, paragraph 1, no. 1 of the Civil Code and the total value of the operation exceeds the materiality threshold established in article 1.2 and in Annex 1 to the same Related Party Transactions Procedure. In consideration of the above, Acea will publish a specific informational document, pursuant to article 5 of the RPT Regulation, within 7 days of the signing of the Settlement Agreement.

Technical and contractual quality bonus

With resolutions 476 and 477, published on 17 October 2023, Arera will complete the quantitative evaluation proceedings for 2020-2021, established in the contractual quality and technical quality incentive mechanisms for the Integrated Water Service, begun in the initial months of 2023. The incentive mechanism for contractual quality (which involves both bonuses and penalties), governed by annex A to resolution 655/15, requires respect for the objectives established for the 2 macro-indicators relative to "Initiation and termination of the contractual relationship" - MC1 and "Management of the contractual relationship and accessibility of the service" - MC2. These standards consists of a total of 42 simple indicators involving performance, related to the main macro-indicators. Technical quality results, governed by annex A to resolution 917/17, lead to bonuses and penalties relative to the 6 macro-indicators established by Arera with reference to water leaks (M1), service interruptions (M2), quality of water distributed (M3), sewer system adequacy (M4), landfill sludge disposal (M5) and quality of treated water (M6).
Bonuses assigned to managers that met the objectives established in the regulations are made available by the "Account for the promotion of the quality of aqueduct, sewer and purification services" established with the Energy and Environmental Services Fund (CSEA), supported by the UI2 tariff component, with 80% of the total assigned to technical quality and 20% to contractual quality.

Acea: Work safety and quality protocol

On 20 October 2023, Acea signed a protocol on tenders with the trade unions, to strengthen work safety and quality, with positive repercussions for the areas in which the Group's companies work.

Acea: Thomas Devedjian resigns as Director

On 31 October 2023, Acea announced that Thomas Devedjian has resigned from his position as Director, appointed through the list presented by the Shareholder Suez International at the Shareholders' Meeting of 18 April 2023. This decision was due to unforeseen professional commitments.

Acea: Francesca Menabuoni, coopted as new Director

Following the resignation of Director Thomas Devedjian, the Board of Directors, at its meeting on 10 November 2023, appointed Francesca Menabuoni by cooptation as a new non-executive Director of the company.

Acea: Moody's confirms Acea's Baa2 rating and improves the outlook from "negative" to "stable"

On 21 November 2023, Moody's improved Acea's outlook from "negative" to "stable". At the same time, the ratings agency confirmed the long-term issuer rating and the senior unsecured rating at the level "Baa2", the Baseline Credit Assessment at the level "baa2", and also the "(P)Baa2" level assigned to the EMTN programme. The improvement in Acea's outlook follows the same trend as Italian sovereign debt. Additionally, the change reflects the Company's "solid financial profile" and the fact that Acea's outlook was previously unfavourably impacted by the negative outlook for the sovereign rating. Acea's ratings remain a level above those of the Italian government, by virtue of the quality of the diversified business portfolio and the Group's strategic focus on regulated activities.

Acea: agreement between Acea and BF to protect and reuse water resources in the agri-industrial and energy sectors

On 9 December 2023, Acea and BF SpA ("BF"), the latter of which is active, through its investees, in all segments of the Italian agri-industrial supply chain, signed a memorandum of understanding ("MoU") to develop possible cooperative actions to protect and reuse water resources in the agricultural, water and energy sectors, with an eye to expanding their respective businesses.

Acea: COP28

On 12 December 2023, the Acea Group, a leader in the water sector in Italy and committed to preventing risks associated with drought and reducing greenhouse gas emissions, contributed to the Global Climate Conference, COP28, participating in the work in Dubai. The company is part of the 20% of Italian companies that have adopted a climate action plan, and part of the 17% that has set goals to reduce their climate altering emissions. In fact, Acea was one of the first industrial groups in Italy to prepare a Sustainability Report, implement a strategy to protect water resources and utilise green energy produced by renewable sources. This year Acea had its CO_2 reduction targets validated by the Science Based Targets initiative -56% by 2032. This certification represents a significant step forward in the decarbonisation process begun by Acea to support the energy transition. Additionally, for the second consecutive year, the company was awarded the Arera prize, from the national regulatory authority, as the best operator in terms of reducing its water leak rate.

Acea: agreement between Acea and Coldiretti, BF and ANBI to protect and reuse water resources

On 20 December 2023, Acea, the national confederation Coldiretti, the Associazione Nazionale Consorzi di Gestione e Tutela del Territorio e Acque Irrigue and BF SpA which, through its investees is active in all segments of the Italian agri-industrial supply chain, signed a memorandum of understanding ("MoU") to develop synergies and possible cooperative projects to protect and reuse water in agricultural, water and energy sectors.

Acea: Publication of documentation for the partial demerger by spin-off

The partial demerger by spin-off, pursuant to article 2506, paragraph 1 of the Civil Code, involves a reorganisation of the assets within the business unit associated with integrated water service management, with the goal of transferring this business unit to a newly established company that will be fully held by Acea. The documentation was published on 22 December 2023 on the Group's institutional website.

Acea: presentation of a project financing proposal to be awarded the public lighting and smart city services for the city of Rome

Meeting on 22 December 2023 and after the preliminary examination by the Related Party Transactions Committee, the Acea Board of Directors approved the definition and presentation to Roma Capitale by a.cities S.r.l., a fully held subsidiary of Acea, of a spontaneous project financing proposal to be awarded the concession, pursuant to article 193 of the Public Contracts Code, of the project to operate, modernise and digitalise the public lighting network and service in the city of Rome and the realisation of innovative smart city services.

Acea: Two tenders awarded in central southern Italy for hydraulic works and network digitalisation

On 17 January 2024, Acea Infrastructure – an Acea Group company that designs and provides engineering and technology services - was awarded two tenders in Molise and Puglia for a total of around € 2.1 million.

Acea: Publication of the second Green Bond Report

In January 2024 the second Green Bond Allocation & Impact Report for the years 2019, 2020, 2021 and 2022 was published, concerning the green format bond loan for a total amount of € 900 million under the EMTN program, and divided into two series, one of which for € 300 million maturing in 2025, and another for € 600 million maturing in 2030, issued as part of the Acea Group's Green Financing Framework for financing projects related to water resource protection, energy efficiency, development of the circular economy, and increased energy production from renewable sources.

Acea: One of the Top Employers Italia 2024

On 18 January 2024, the Acea Group has obtained Top Employers Italia Certification for the third consecutive year, official recognition of corporate excellence in HR policies and strategies and implementation of the same, with the aim of contributing to the well-being of people, improve the environment and the world of work.

Acea: Carbon Disclosure Project (CDP)

On 22 February 2024, the Carbon Disclosure Project (CDP) announced that Acea had been promoted to leadership class with respect to fighting climate change. The Company obtained an "A-" rating, an improvement on the "B" rating received the previous year based on the CDP-Climate questionnaire. Acea is now in the "Leadership" class with the companies most committed to combating climate change, in line with the objectives in the Paris Accords, classified above the European average (B rating) and the average energy utility rating (B).

Acea: Memorandum of Understanding between MIM and Acea

On 27 February 2024, Acea signed a three-year Memorandum of Understanding with the Ministry of Education and Merit to promote education on the proper use of water resources in primary and middle schools.

Consequences of geopolitical, climate and energy events

If 2022 will go down in history for its extreme geopolitical, climate and energy events, 2023 saw a substantial loosening of tension on energy markets, given the gradual strengthening of downward trending fundamental: falling demand, mild winter and autumn temperatures and stocks consistently at historically high levels, as well as hydroelectric production and French nuclear availability recovering from the *annus horribilis* of 2022.
Consequently, electricity and gas prices gradually fell until mid-year, converging at the levels seen in mid-2021 - the start of the energy crisis. The scars of this latest and changed global gas supply situation have made European markets very nervous and sensitive to the contingent international and geopolitical tensions that developed in the second half of the year, above all the outbreak of the Israel/Hamas conflict, which impeded further decreases.
Despite a baseline situation of uncertainty associated with the continued Russia/Ukraine war, the prices of raw materials were relatively stable in the first half of 2023, after the significant growth seen in 2022. Trends on energy markets saw wholesale gas prices down notably during the second quarter of 2023, thanks to ample supply with respect to demand, allowing Europe inventory levels to arrive at over 70% of capacity. Nonetheless, prices ceased to fall in June, in part due to problems associated with the unavailability of production infrastructure in Norway.

MAIN RISKS AND UNCERTAINTIES

Due to the nature of its business, the Group is potentially exposed to various types of risks, mainly from natural events, climatic changes and financial market risks (external risks) and operational and environmental risks specific to each business sector, Information Technology and Human Resources (internal risks). In order to manage these risks, analyses and monitoring are carried out by each company as part of a structured and coordinated process implemented at a Group level through the integration of two complementary approaches (Enterprise Risk Management and continuous risk management), aimed at assessing and treating the risks of the entire organisation in an integrated logic, consistent with its risk appetite, with the aim of providing management with the information needed to make the most appropriate decisions to achieve strategic and business objectives, to safeguard, grow and create value for the company.
As part of the Enterprise Risk Management Framework, Group companies, also availing themselves of the support and assistance of Acea SpA's Risk Management, Compliance & Sustainability Department, periodically carry out risk assessment activities in a structured manner, with the aim of identifying and assessing the main risks that may significantly affect the achievement of business objectives. In this way, a representation of the evolution of the Group's overall risk profile is achieved, through the mapping and prioritisation of the main risks to which the Group is exposed and the identification of optimal methods for managing them, by preparing a mitigation strategy and monitoring its implementation. In the monitoring phase, Group companies ensure the management of identified risk scenarios, including through the implementation of specific response actions identified to reduce their potential effects.
Furthermore, among the tools available to the Group, the Key Risk Indicators (KRI) Framework makes it possible to assess changes in the organisation's exposure to "operational" risks through the identification, regular updating and integrated reading of "sentinel" metrics. In order to contain these types of risks, the Group has implemented mitigation and monitoring as summarised below at both a corporate and business sector level.
For Risk Mitigation long ago the Acea Group introduced the development and adoption of a Group Insurance Plan based on the following pillars:

- Third Party Liability;
- Property Damage;
- Employee benefits.

More specifically, the first two pillars transfer the economic and/or asset risk deriving from civil liability – in all its general, professional, environmental forms – and from events (accidental, culpable or malicious) affecting the Group's physical and production assets.
The third pillar, on the other hand, aside from transferring economic and financial risk, implements a corporate welfare measure guaranteeing and paying the employees of the Acea Group significant financial support – both to those directly concerned and to those who may be entitled – in case of serious traumatic events related to both the professional and private spheres.
Still on the subject of *risk mitigation*, most of the companies of the Acea Group have adopted and maintain an Integrated Quality, Environment, Safety and Energy Management System (hereinafter the "System"), which complies with UNI ISO 9001:2015 (Quality), UNI ISO 14001:2015 (Environment), UNI ISO 45001:2018 (Safety) and UNI ISO 50001:2018 (Energy), certified by an accredited external body, as a tool for the prevention of accidents, diseases and pollution, as well as a measure to promote and support the efficiency and effectiveness of the company's processes, including energy processes, and to achieve continuous improvement in the performance of the System itself and work management.
It should be noted that the main risks and uncertainties that could cause significant effects on the Acea Group's economic, equity and financial situation present at the time this current Report on Operations was prepared are identified and that updates will be made when necessary.

COMPETITIVE-REGULATORY RISKS

Regulatory evolution risk

As is well known, the Acea Group operates mainly in regulated markets and the requirements and obligations that characterise them (as well as changes in the rules of operation of these markets) can significantly affect the results and performance of operations. In particular, several Group companies manage the Integrated Water Service in their respective Territorial Areas, which is known to be a sector receiving an increasing level of attention from lawmakers and the Sector Authority (ARERA). The Group is therefore exposed to the evolution of the relevant legal/regulatory frameworks in the areas served.
In this regard, it should be noted that following the extension of ARERA's regulatory and control powers to waste management, Companies in the Environment Segment are also exposed to potential risks arising from changes in the regulatory framework.
These risks are mitigated by careful monitoring of regulatory developments, interacting with the relevant bodies and participating in association and institutional meetings carried out by the competent business structures in synergy with the Group's organisational structures. These structures monitor regulatory developments in terms of providing support in the preparation of comments in the response to the Consultation Paper, in line with the interests of Group companies, and guidance for the consistent application of regulations in corporate procedures and within the electricity, gas, water and environment businesses.

Political, social and macroeconomic context risk

In providing services to its customers, the Acea Group is very attentive to the expectations and choices of its institutional, regional and central counterparts. On the other hand, most of its activities are in any case sensitive to the economic and structural dynamics experienced by the economic and productive fabric of the respective regions.
In this sense, the main factors influencing the Group's performance include changes in the political, social and macroeconomic context of reference. These uncertainties can have an impact on the achievement of economic/financial objectives and investments, as well as on the implementation of major works, whose timing can be influenced by changes in government structures at both a central and local level.

The Group has historically focused on guaranteeing levels of excellence in the technical and commercial quality of the services provided, including through dialogue models that are increasingly attentive to the needs expressed by its stakeholders in order to put in place virtuous dynamics in relations with its customers, also with regard to payment habits. In this regard, it should be noted that the Group is also subject to the risk of deterioration of its credit positions, particularly in connection with the provision of the Integrated Water Service, with consequences on the exposure of working capital. This risk is managed proactively by the relevant structures of the individual companies, applying specific Group Credit Policies and with the support of the Parent Company's relevant organisational structures.

In relation to the international geopolitical crisis arising from the Russia-Ukraine and the middle-east conflicts, there are difficulties and uncertainties when assessing the effects and repercussions that could arise from the continuation of this international crisis. Risk analysis done during the year in any case indicated an increase in risk in certain areas for Acea Group business (e.g. commodity prices, supply chains, etc.), which are discussed in more detail in the paragraphs below and are all involved in specific response actions and monitoring.

Management is currently engaged in monitoring the situation on international markets and will continue its analysis of commodity price trends over the coming months as well as the trend of receivables that however do not represent critical elements at the moment. With reference to raw materials, in addition to monitoring balances on the basis of fixed and variable price sales forecasts, Group companies only use high-standing counterparties that meet the requirements of their own commodity and counterparty risk procedures. With regard to the short and medium-term effects of a financial nature, the Group is carrying out appropriate monitoring activities in order to take timely action. It should be noted that Acea Group has no direct relations with companies under Russian, Ukrainian or Belarusian law that are in any way affected by the conflict. Given the situation of absolute uncertainty, the Acea Group will reflect in the Business Plan any impacts that are currently undetermined. As previously illustrated, the effects of the conflict on the global economic-financial conditions can be seen not only in companies whose investments or operating activities are mainly located in Russia, Belarus and/or Ukraine or that maintain commercial relationships with third companies operating in these countries, but all companies, as they find themselves in a greatly weakened economic-financial environment with rising interest rates.

Acea Group therefore conducted an analysis of the market and of possible different scenarios, thereby developing an econometric model for estimating the existing relationships between the main economic-financial data relevant to Acea's various companies and plants, with particular reference to margins, and the main macroeconomic variables. The main stages of the analysis focused on identifying possible alternative scenarios, collecting and analysing data on all Group companies and plants, and finally, based on the scenarios developed and the estimated model, forecasting the possible future performance of Acea financials. From the analyses conducted, there is no statistical evidence from the current macroeconomic environment of significant impacts on Acea's various businesses.

NATURAL RISKS

For the Acea Group, due to the nature and location of its business lines, the main issues related to climate change could arise in operational, regulatory and legal areas, with potential repercussions on finances as well. As far as the first aspect is concerned, chronic meteorological events like the reduction of rainfall can have negative impacts on both hydroelectric energy production and the reduction of the availability of drinking water to be distributed, with among other things an increase in energy consumption for the withdrawal of water from less favoured sources. On the other hand, extreme phenomena such as storms can lead to the risk of lightning strikes, blackouts or, for the water network, overflow of drains connected to the wastewater systems and turbidity of the water sources. Moreover, from a regulatory and legal point of view, these climatic effects can have an impact on the consequent provision of the service in accordance with the regulations in force, with consequent financial penalties. The implications of regulatory actions on CO2 emission allowances, renewable sources, taxes and energy efficiency certificates could be very significant, with possible financial impacts.

Some of the risk that the Group must deal with includes possible impacts deriving from unpredictable natural phenomena (e.g. earthquakes, floods and landslides) and/or from cyclical or permanent climatic changes on the networks and plants managed by Acea Group companies. The first types of risks are addressed through the implementation of structured tools for the governance of assets, specific to each business area (e.g. Water Safety Plan within the IWS; constant monitoring of the reservoirs, also carried out in collaboration with the competent Ministry, in the field of dam management), as well as with projects, some of national scope, aimed at increasing the resilience of the infrastructure in the various regions (e.g. the project for the Peschiera-Le Capore aqueduct). The residual portion of risks from natural events is covered by the Group's insurance programme mentioned on the previous pages.

The natural environment is the basic scenario in which the Group's activities are developed and, as such, it is of fundamental importance to understand the regulations and global trends that impact the same, also in relation to links between the environment and energy/climate scenarios.

In the World Economic Forum's Global Risks Report 2023, environmental challenges are identified as one of the main global threats seen as the most serious in the next 10 years, confirming the importance of a global vision of environmental and climate issues. During 2023, the COP28, held in Dubai, hosted the first global stocktaking, an opportunity to assess the joint effect of Nationally Determined Contributions (NDC). In this context, the parties defined an agreement to accelerate the global transition, promoting the "transition away" formula, and including for the first time in history an explicit reference to moving beyond fossil fuels to reach climate neutrality by 2050 and agreeing to triple the amount of renewable energy and double efforts for energy efficiency. With reference to the energy situation, the IEA's World Energy Outlook 2023 confirms the ongoing transition scenario, with growing opportunities for clean energy (+40% for investments since 2020), while also forecasting an increase in liquefied natural gas projects in 2025, to deal with worries about supplies. In line with COP28, to achieve the zero net emissions goals by 2050, the IEA confirmed that additional progress was needed, including a tripling of renewable energy production, a doubling of energy efficiency improvements and an increase in electrification, with a reduction in methane emissions from fossil fuel operations.

2023 was a decisive year for future European environmental policies. The European Parliament also approved the Nature Restoration Law, the first European legislation that explicitly aims to restore nature with legally binding targets for member states. In October 2023, during the European Business & Nature Summit in Milan,

companies, financial institutions, governments and representations from academia and civil society met to discuss how companies can respect the commitments in the Kunming Montreal Global Biodiversity Framework (GBF) adopted in 2022. The event also saw the launch of the European Business and Nature Charter.
In 2023, the Taskforce on Nature-related Financial Disclosure (TNFD) issued its final document, containing recommendations on nature aimed at organisations, sectors and value chains.
In its Code of Ethics the Acea Group assigns fundamental importance to principles linked to sustainability and the adoption of a climate strategy. In 2023, Acea received validation of its Science Based Targets Initiative (SBTi) for its emission reduction target (by 2032), in line with climate science indications. Again in 2023 the Group participated in the Carbon Disclosure Project (CDP), improving its classification in the CDP assessment from B to A-. Additionally, with reference to climate altering gas emissions it published its second climate-related disclosure following the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), enriching its projects aimed at identifying risks and analysis of medium/long-term climate scenarios.

OPERATIONAL RISKS

Regulatory compliance risk

The nature of its business exposes the Acea Group to risks of non-compliance with domestic and EU consumer protection regulations, that is the risk mainly linked to the commission of unlawful or improper consumer/business practices or the issuing of misleading advertising, as well as the risk of non-compliance with domestic or EU competition regulations, that is the risk mainly linked to the prohibition for companies to implement agreements to reduce competition or abuse their dominant market position.
Acea adopted a specific Antitrust Compliance Programme and appointed a Holding Antitrust Officer. The main objective of the programme is to strengthen internal controls aimed at preventing the violation of regulations through the implementation of regulatory and organisational instruments, as well as through a more widespread dissemination of the culture of respect for the principles of fair competition and consumer rights. The main Group companies adopted the Antitrust Compliance Programme in line with the indications of the Holding Company, and set up organisational structures in which Company Antitrust Officers were appointed, given the task of managing the activities to adapt the Programme to the individual companies and supervise its implementation and maintenance.
Regulatory risks also include all non-conformities, with particular regard to the environmental impact of Acea Group (generated for example by the activities of production and / or treatment of urban waste and waste, and of health and safety at work, mitigated through the adoption of certified management systems, respectively UNI EN ISO 14001: 2015 and ISO 45001:2018), which may result in the application of administrative and / or criminal penalties, including those of a disqualifying nature.
Following the introduction of some crimes that expand the catalogue of predicate offences capable of triggering the responsibility of the Bodies pursuant to Italian Legislative Decree 231/2001, the Acea Group has started the progressive updating of the companies' respective organisational models, starting with that of Acea SpA. In addition, preparations have begun for updating the Model for the law converting Italian Law Decree no. 124/2019 of 17 December 2019 that came into force on 25 December 2019, which introduced some tax crimes among the predicate offences pursuant to Italian Legislative Decree 231/01, and Italian Legislative Decree 75 of 14 July 2020 transposing the "PIF Directive".
As part of the general Group Whistleblowing Procedure aimed at regulating the system with which anyone can make voluntary and discreet whistleblowing reports, guaranteeing the confidentiality of the identity of the whistleblower and thus protecting him/her from any retaliation, the rules governing Whistleblowing relating to unlawful conduct have been updated, also pursuant to Italian Legislative Decree 231/01 and/or violations of the 231 Model, expanding the possible channels of communication to include a specific IT platform, accessible by everyone (employees, third parties, etc.) on the website of each Group Company, and by employees of the Italian Companies of the Group having access to the company's Intranet.
It should be noted that some consolidated companies (Areti, Acea Ato2, Acea Infrastructure and Acea Ambiente), as more fully illustrated in the related financial statements, are subject to investigations or proceedings that relate to significant cases pursuant to Italian Legislative Decree no. 231/01 concerning safety and/or the environment. There are also complaints for corporate offences relating only to Acea Ato5, related to investigations and proceedings for significant cases pursuant to Italian Legislative Decree 231/01 concerning the environment and corporate crimes. In particular, with regard to corporate offences, case 2031/16 relates to financial years 2015, 2016 and 2017 and alleges that the crimes of accounting fraud and filing fraudulent financial statements were committed by the Chairpersons of the Company and the representatives of the supervisory body of this company. During 2020, notification was received that the preliminary investigations had been completed, pursuant to art. 415 bis.
On the basis of the information currently available, taking into account the operational autonomy of the companies with respect to the parent company Acea, any responsibilities that may be ascertained upon the final outcome of the aforementioned proceedings are exclusively attributable to the companies themselves, without any repercussions on the Parent Company or other companies of the Group that are not involved.
Finally, other additional regulatory risks that may potentially be of particular relevance for the Acea Group include those arising from the Privacy Regulation (EU) 2016/679 GDPR.
The Acea Group's compliance programme has made it possible to define and implement a Privacy Governance Model that is valid for the Group, taking the Parent Company as a privileged area of observation in its role as the linchpin of the system and supplier of services and/or centralised activities, looking at the Companies with a logic of priority at the core processes of each business area. The online training programme offered using an e-learning platform has been extended to Companies to provide a *first layer* of compliance with the obligation for Data Controllers to instruct data processing personnel, providing them with training on individual corporate processes as well as a particular focus on cross-cutting procedures (HR, Legal, etc.).
Corporate working groups have been set up to customise the Group Model in the individual companies, with effects on the implementation and/or fine-tuning of processes having a high impact on privacy, and initiatives have also been carried out to test compliance solutions already adopted.

Commercial Segment

With reference to the Commercial segment, the companies of the

segment, in carrying out their sales activities on the electricity and gas free market, are fully exposed to the risk deriving from competition. In particular, there is the risk connected with potential economic and financial damage due to the progressive concentration of the electricity and gas market, i.e. the reduction in the number of competitors and the increase in their respective market shares, which would penalise the positioning of sales companies on the market, in the event of failure to align with the growth trend of the main competitors. This in particular in the case that a reduction in the prices of the reference commodity occurred, which could lead to exposure for a significant portion of the customer base to aggressive policies from the main competitors. Companies in this segment are also exposed to the risk of potential economic/financial impacts due to partial efficacy of commercial initiatives, intended to strengthen and increase the customer base and the margins of the companies.
Furthermore, with reference to commodities, there is the risk connected with potential economic and financial damage due to the impact of changes in the macroeconomic context, including geopolitical changes which would lead, in the first case, to a reduction in the consumption of commodities by business customers and, in the second case, to phenomena of extreme volatility in commodity prices, with negative consequences on trade dynamics.
Relative to the Greater Protection electricity service, which as of July 2024 will see the Company as the sole supplier for vulnerable customers, note the risk associated with changes in the reference regulations, which could have a significant impact on the growth of the customer base.
This situation carries the risk of Acea Energia being penalised due to: (i) the inability to perform and commercial activity with regard to greater protection service customers in the vulnerable category; (ii) dependence on tariffs regulated by revenues and margins of the greater protection service; (iii) exposure of a significant portion of its customer base to the impacts of policies that will be adopted with a view to moving away from the greater protection service for vulnerable customers.
In the context of Acea Energia's operating activities which, as a commercial company, are the single point of contact for end customers, both for the electricity and gas free market and for the Electricity Service for the standard-offer market, there is risk linked to the possibility of inadequate levels of performance on the part of Distributors, with consequent impacts on the sales company.
The Segment Companies also have typical business risks deriving from an efficient and effective management of billing and credit collection procedures, where it is affected by the sub-optimal performance of electricity and gas distributors.
Information about commodity price risk and the control tools adopted is provided in the financial risks section.

Energy infrastructure

Areti, making use also of the support and assistance of the Acea SpA Risk Management, Compliance & Sustainability Unit in managing the process and of the instruments of the Enterprise Risk Management system implemented in the corporate Group, carries out periodically and in a structured way an activity of identifying and assessing the main risks that can have a significant impact on the achievement of the business objectives deriving from the strategic, industrial, financial and sustainability plans.
During the year, a risk scenario was identified associated with the concrete appearance of cyber threats, exposing the Company's OT systems to compromised availability, integrity and confidentiality for data with reference to Industrial Control Systems (ICS), with potential damage in terms of business interruptions (due to alteration/unavailability of technical or administrative processes), data/infrastructure impairment (alteration of logical or physical infrastructure) and breaches in terms of regulatory compliance (e.g. the General Data Protection Regulation (GDPR), Network and Information Security (NIS) and the national cybernetic security perimeter).
The company has already adopted preventive measures and will implement further projects in line with the best available technology and in compliance with current legal provisions.

Production Segment

The main operational risks associated with the segment's business may relate to property damage (damage to assets, adequacy of suppliers, negligence), personal injury and damage arising from information systems and external events.
The Company, in order to cope with any operational risks, has taken steps, since the start of its activity, to sign policies with leading insurance institutions for property damage, third party liability and employee accidents.
The Company pays particular attention to the training of its employees, through in-person, virtual and on-line training courses, in order to make field operators and all corporate management responsible for working safely, respecting the environment and ecosystems, with ethical appropriateness and with a view to eco-sustainability, as well as to ensure compliance with regulations associated with Legislative Decree 231/01 as amended - Antitrust and Consumer Protection – Privacy (GDPR).
The Company also develops and defines internal organisational procedures aimed at describing the activities and business processes of production sites/operating units where it specifies the matrix of responsibility and the context and the applicable legislation of reference; In addition, it draws up its own operating instructions for the field, which show how recurring maintenance work is to be carried out, relating the technical operating specifications to the safety guidelines to be used in operations.
The above is also realised through the implementation of an Integrated Quality, Environment and Safety Management System (hereinafter SYSTEM or SGI), adopted by the Company pursuant to ISO 9001:2015, ISO 45001:2015 and ISO 45001:2018, certified by an accredited external control body, respectively no. 44357/23/S - EMS-5491/S - OHS-2406.
SYSTEM is intended to be a tool to:

- protect health and safety in the workplace and throughout the supply chain;
- protect the environment and biodiversity in ecosystems of interest;
- promote rational and knowledgeable use of energy sources and raw materials;
- promote a culture of quality and energy savings;
- achieve customer satisfaction;
- ensure continuous and proactive dialogue with other interested parties.

All the above is specifically detailed in the SYSTEM policy, as declared, adopted and published by the companies in the Segment.

Environment Segment

The Terni and San Vittore del Lazio plants were involved in optimisation and revamping projects that present the risks typically relat-

ed to the construction of complex industrial infrastructure (e.g. any construction and performance defects).
The Orvieto plants, and more recently Aprilia and Monterotondo, have completed major upgrading of their recovery processes for composting purposes, while the Sabaudia and Chiusi plants are undergoing major expansion and upgrading work that is currently being authorised (Sabaudia) or has just been authorised (Chiusi).
With regard to the management phase, the possible discontinuity of the waste-to-energy activities carried out in the Terni and San Vittore del Lazio plants and the waste treatment activities carried out by the other plants, if connected to the production of electricity under incentive programmes and the provision of public services, could have significant negative repercussions. This, both from an economic point of view and with respect to responsibility towards public and private suppliers. In this context, therefore, where not planned, a plant shutdown creates a concrete risk of failure to achieve the objectives of the industrial activity.
The waste-to-energy plants, as well as waste treatment plants to a lesser extent, are characterised by a high level of technical complexity, which requires the management of qualified resources and organisational structures with a high level of know-how. Therefore, there are specific risks with regard to the continuity of technical performance of the plants, as well as connected to the possible exodus of professional skills (not easily available on the market) having specific managerial skills in this area.
These risks have been mitigated by implementing specific maintenance and management programmes and protocols, drawn up partly on the basis of the experience acquired in plant management. Moreover, the plants and the related activities are designed to handle certain types of waste. The failure of incoming material to meet the necessary specifications could lead to concrete operational problems, sufficient to compromise the operational continuity of the plants and give rise to risks of a legal nature.
For this reason, specific procedures have been adopted for monitoring and controlling incoming materials via spot checks and the analysis of samples pursuant to legislation in force.

Information Technology risks

For years now Acea has followed a development path focused on the use of new technologies as a driving force for the operational efficiency, safety and resilience of its industrial assets. The main business processes are now all supported by the use of advanced information systems, implemented and managed by the Group's centralised departments to support the operations of the various companies. In this sense, the Group is therefore exposed to the risks of the adequacy of the IT infrastructure to the current or future needs of the various businesses, as well as to the risks of unauthorised access to the data processed using IT procedures, with or without intent, and in any case inappropriate or not in compliance with current regulations. Acea manages these risks with the utmost attention through specific corporate compliance structures coordinated by specialised Group safeguards.
As far as cyber security of systems, infrastructure, networks and other electronic devices is concerned within the scope of the services provided or the respective Group Companies, the current procedural and technological safeguards of the Companies themselves are implementing all the necessary actions to align their cyber security posture with the main national and international industry standards in order to increase their resilience to risks of this nature, possible repercussions in terms of business interruption and regulatory non-compliance. Technological and organisational measures have been implemented with the aim of:

- managing the threats to the organisation's network infrastructure and information systems in order to ensure a level of security appropriate to the existing risk;
- Preventing accidents and minimising their impact on the security of the network and information systems used to provide services, so as to ensure their continuity.

To that end, note that on 2 February 2023 Acea was the victim of a Ransomware hacker attack, which affected all Corporate IT services. Essential services (including electricity and water distribution) were not impacted; with reference to work stations, only a few units were compromised, thanks to the anti-malware technology installed. Concurrent with analysis, existing security measures were strengthened and recovery was begun, including restoration of full backups, which led to a gradual recovery of functioning for all systems/services. The event involved the compromising of the company's non-structured data repository with an impact on availability. Together with internal analysis, an investigation by the Public Prosecutor of Rome was launched and is still under way, utilising the bodies of the CNAIPIC Postal Police - PG to analyse the incident. The incident was also followed by the online publication of company folders and files illicitly extracted during the attack. Given that personal data was also contained in these, the company's Data Breach procedure was activated, with notification of the Personal Data Protection Authority (GPDP). Acea promptly implemented all the procedures necessary to comply with the Privacy regulations. In particular, the GPDP received a preliminary notification by the deadline of 72 hours after the event was identified. Subsequently, two supplementary notifications were sent, followed by a third on 21 April, completing the notification process and providing evidence of the results of the analysis carried out.
Following the conclusion of the notification process, the GPDP sent a request for information which Acea responded to by the deadline, and subsequently began an audit, mainly consisting of requests for information and documents inherent to the notifications made. This audit was begun on a day in early May, at the end of which the GPDP indicated that an additional day would be necessary, which occurred in July. At the end of this second day, the GPDP set a deadline of 31/07 to provide the additional documentation requested, which was not available at the time as it was being finalised. This documentation was supplied by the date indicated above.
From that point, no additional requests for information or clarifications have been received from the GPDP, although it has the power to request them, nor has it issued any provisions.
That being established, remember that still today the Authority has the right to obtain further information through requests and investigatory actions. It should be noted that at present it is not possible to predict, on the basis of currently available information, whether the Authority will apply any sort of penalty, nor the relative amount, that being represented in the communication made through Acea's request remaining still valid today, submitted through a third party and annexed to the present letter, also taking into consideration that the regulatory process for notifying the Authority was followed. The event did not require any adjustments to the data and information utilised in the preparation of the Acea Group's Consolidated Financial Statements for 2023.

MARKET RISK

The Group is exposed to various market risks with particular reference to the risk of price/volume oscillations for commodities being

bought and sold, interest rate risks and foreign exchange risks to a lesser extent. To reduce exposure to within the defined limits, the Group enters into contracts drawn up on the basis of the typologies offered by the market.
The **Market Risk** is the risk concerning the unexpected effects on the value of the portfolio of assets due to changes to the market conditions.

Commodity risk

In this context, reference is made to the Price Risk and Volume Risk cases as defined:

- **Price risk**: risk linked to the change in commodities prices due to the difference in the price indices for purchases and sales of Electricity, Natural Gas and EUA Environmental Certificates;
- **Volume risk**: the risk linked to changes in the volumes effectively consumed by clients compared to the volumes envisaged in the sales contracts (sale profile) or, in general, the balancing of positions in the portfolios.

Through the activities carried out by the Commodity Risk Control Unit of the Finance Unit within the Administration, Finance and Control department, Acea SpA ensures the analysis and measurement of exposure to market risks, interacting with the Energy Management Unit of Acea Energia, verifying compliance with the limits and criteria adopted by the General Risk Management of the Commercial and Trading Sector and by the Administration, Finance and Control Department in line with the Acea "Guidelines for the Internal Control and Risk Management System" and Acea "Guidelines for Risk Management For Commodity Trading in Futures Markets", approved by the Board of Directors on 14 March 2022, as well as the specific procedures. The analysis and management of risks is carried out according to a second-level control process that involves the execution of activities throughout the year with different frequency by type of limit (annual, monthly and daily), carried out by the Commodity Risk Control Unit and by risk owners.
Specifically:

- every year, the measures of the risk indicators, i.e. the limits in force, must be reviewed and respected in the management of the risks;
- every day, the Commodity Risk Control Unit is responsible for verifying the exposure to market risks of the companies in the Commercial and Trading Industrial Segment and for verifying compliance with the defined limits.

The reports are sent to the Top Management on a daily and monthly basis. When requested by the Internal Control System, Commodity Risk Control prepares the information requested and available to the system in the format appropriate to the procedures in force and sends it to Acea's Internal Audit Unit.
The risk limits of the Commercial and Trading Sector are defined in such a way as to:

- minimise the overall risk of the entire segment;
- guarantee the necessary operating flexibility in the provisioning of commodities and hedging;
- reduce the possibility of over-hedging deriving from the variation in expected volumes for the definition of hedges.

The management and mitigation of commodity risk are functional to achieving the economic and financial objectives of Acea Group, as indicated in the budget, in particular:

- to protect the primary margin against unforeseen and unfavourable short-term shocks in the energy market which affect revenues or costs;
- to identify, measure manage and represent exposure to risks;
- to reduce risks through the preparation and application of adequate internal controls, procedures, information systems and expertise.

Commodity trading on futures markets is intended to satisfy expected needs deriving from electricity and gas sales contracts relative to end customers.
The risk hedging strategy adopted by the Commercial and Trading Industrial Area also aims to minimise the risk associated with the volatility of the Income Statement deriving from the variability of market prices and ensure correct application of the Hedge Accounting (in accordance with current International Accounting Standards) to all derivative financial instruments used for such purpose.
As regards the commitments undertaken by the Acea Group to stabilise the cash flow from purchases and sales of electricity, it should be noted that all of the ongoing hedging operations are recorded in the accounts using the flow hedge method, as far as the effectiveness of hedging can be demonstrated. The financial instruments used are of the swap and contracts for difference (CFD) type, or other instruments aimed at hedging commodity price risk.
The evaluation of risk exposure involves the following activities:

- recording of all transactions involving physical quantities carried out in special books (known as Commodity Books) differentiated according to the purpose of the activity (Sourcing on wholesale markets, Portfolio Management, Sale to end customers within and outside the Acea Group) and commodities (e.g., Electricity, Gas and EUA);
- daily checks on observance of limits applicable to the various Commodity Books.

The activity performed by the Commodity Risk Control Unit provides for daily codified checks on compliance with risk procedures and limits (also for purposes of compliance with Law 262/05) and reports to the Top Management any discrepancies detected during the phases of checks, so that measures can be adopted to be within the established limits.
Due to the extreme conditions on the energy and gas commodity markets, during 2023 the application of the limits established for management of Acea Energia's portfolios was suspended, based on a decision made by top management.

Interest rate risk

The Acea Group's approach to managing interest rate risk, which takes the structure of assets and the stability of the Acea Group's cash flows into account, has essentially been targeted, up to now, at hedging funding costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.
The Acea Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.
In particular, for static management (to be opposed to the dynamic one) we mean a type of management of interest rate risk that does not provide for daily operations on the markets but an analysis and control of the position carried out periodically on the basis of specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term.
Acea has, up to now, opted to minimise interest rate risk by choosing a mixed range of fixed and floating rate funding instruments.
As it is known, fixed rate funding protects a borrower from cash flow risk in that it stabilises the financial outflows in the income statement, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.

Foreign exchange risk

The Group is not particularly exposed to this type of risk, which is concentrated in the conversion of the financial statements of its overseas subsidiaries.
As regards the 20 billion Yen Private Placement, the exchange rate risk is hedged through a cross currency swap described in the section on interest rate risk.

Liquidity risk

The Group policy for managing liquidity risk, for both Acea and its subsidiaries, involves the adoption of a financial structure which, coherent with business objectives and within the limits defined by the Board of Directors, guarantees a suitable liquidity level that can meet short/medium-term financial requirements, while maintaining an appropriate balance between maturity and composition of debt, also taking into account the challenging objectives set out in the Business Plan in terms of developing new M&A initiatives. The various elements of uncertainty faced by the Group include the potential economic, financial and reputational impacts associated with the closing of or failure to close the aforementioned transactions. The Acea Group has therefore adopted an articulated and structured assessment process for these risks, carried out in close coordination between the companies and the Parent Company's organisational controls of the individual types of risk.
The liquidity risk management process, which uses financial planning tools for outflows and receipts implemented at the level of the individual companies under the coordination of specific Group oversight, aimed at optimising the management of treasury hedges and to monitor the trend of consolidated financial debt, is carried out both through cash pooling management both through the support and assistance provided to the subsidiaries and associated companies with which there is no centralised finance contract.

Credit risks

Credit risk is associated with the possibility that a commercial counterparty is non-compliant, not honouring their commitments in line with the methods and schedules contractually established. This type of risk is managed by the Acea Group through specific procedures, prepared in line with the Group's Credit Policy and with appropriate mitigation actions.
The Credit Check system, which has been operating in unregulated markets for several years and with which all new mass market and small business customers are checked through customised scorecards, is integrated with user management system.
Scorecards, updated based on the most recent collection experiences, began use at the beginning of 2022 and were adjusted in 2023 in line with the changed reference scenario.
The assessment of Large Business customers is managed through an approval workflow with decision-making bodies consistent with the level of exposure expected from the supply. The models and tools for managing Large Business customers were also optimised during 2023.
The dynamic management of recovery strategies is carried out in the billing system for active customers, based on their relative payment habits (performance scorecard) and through a dedicated management system for those discontinued.
The structures of the individual companies responsible for credit management are coordinated by Acea's Corporate Credit unit, which guarantees end-to-end control of the entire process.
The mass management of active and inactive receivables of a limited amount was carried out by the operating companies, leaving to the holding company the activity of disposing of non-performing receivables through disposal operations, as well as the management of inactive customers with significant amounts due. As a result of these interventions, in recent years the Acea Group significantly improved its collections capacity both in terms of electricity sales and the water supply business.
Due to the difficult macroeconomic situation in 2022, despite the excellent performance in terms of cash flow, the Acea Group held it expedient to incorporate a corrective factor when evaluating credit risk the previous year, in order to anticipate a possible worsening of the creditworthiness of its counterparties. Therefore, utilising satellite models, a stress scenario was introduced for the main companies to determine the unpaid rates used to calculate invoices to be issued, differentiated based on the business in question.
Despite continued financial uncertainties, with increased interest rates and inflation, 2023 was another year in which all the main Group companies saw excellent cash flow performance. With reference to the end of December 2023, as in previous methodology, the prudential ratios applied in 2022 were updated, leading to new amounts for "unpaid stressed".
As in previous years, this year the Group has also set up non-recourse, revolving and spot transactions, of receivables from private customers and public administrations. This strategy exposes the Group to the risks involved in closing or failing to close these operations, and on the other hand allows the full derecognition of the corresponding assets subject to disposal from the financial statements since all the risks and benefits associated with them have been transferred.
Trade receivables are shown in the financial statements net of any impairment; it is held that the value shown expresses an accurate representation of the presumed realisable value of total trade receivables.

Risks relating to the rating

Access to the capital market and other forms of funding and the related costs, depends amongst other things on the Group's credit rating.
A reduction in the credit rating by rating agencies could represent a limiting factor for access to the capital market and increase collecting costs with the consequent negative effects on the equity, economic and financial standing of the Group.
Acea's current rating is shown in the following table.

Company	M/L Term	Short Term	Outlook	Date
Fitch	BBB+	F2	Negativo	03/2023
Moody's	Baa2	n.a.	Stabile	11/2023

BUSINESS OUTLOOK

In a still complex context, due to the geopolitical turbulence in East Europe and tensions in the Middle East between Israel and Hamas, the results for 2023 maintained the positive trend seen in the final months of the previous year, with consolidated EBITDA (net of non-recurring items and the change in the scope of consolidation) and operating cash flow generated both up.
The Group will continue to focus more and more attention on managing costs and investments, revising its procurement procedures.
Additionally, lines of action were defined to contain credit risk, through prevention and managing the customer portfolio.
The Group will continue to implement its strategy focussing on the development of sustainable infrastructure in regulated contexts, with the aim of maintaining a solid financial structure and continuing to generate positive impacts on operating and economic performance.

RESOLUTIONS REGARDING THE RESULT FOR THE YEAR AND THE DISTRIBUTION TO SHAREHOLDERS

Dear Shareholders,
In inviting you to approve the financial statements we are submitting to you, we propose to allocate the profit for the year ended 31 December 2023, equal to € 202,961,039.38, as follows:

- € 10,148,051.97, equal to 5% of profit, to the legal reserve;
- distribution of a total dividend of € 187,042,158.16 to shareholders, corresponding to a dividend of € 0.88 per share;
- € 5,770,829.25 carried forward.

The total dividend (coupon no. 25) of € 187,042,158.16, equal to € 0.88 per share, will be paid starting from 26 June 2024 with coupon detachment on 24 Juneand record date 25 June.
On the date of approval of the financial statements, treasury shares amounted to no. 416,993.

Acea SpA
The Board of Directors