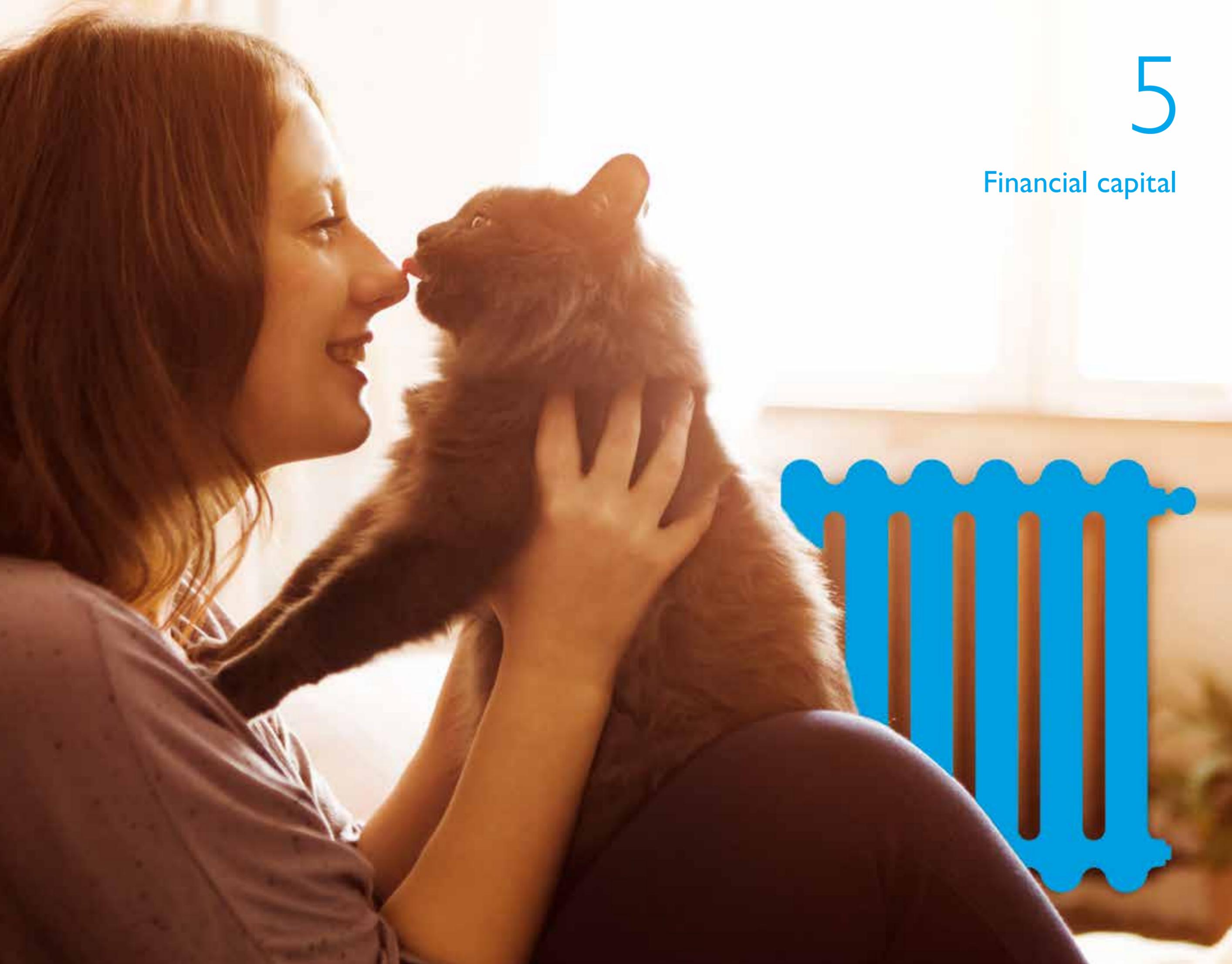


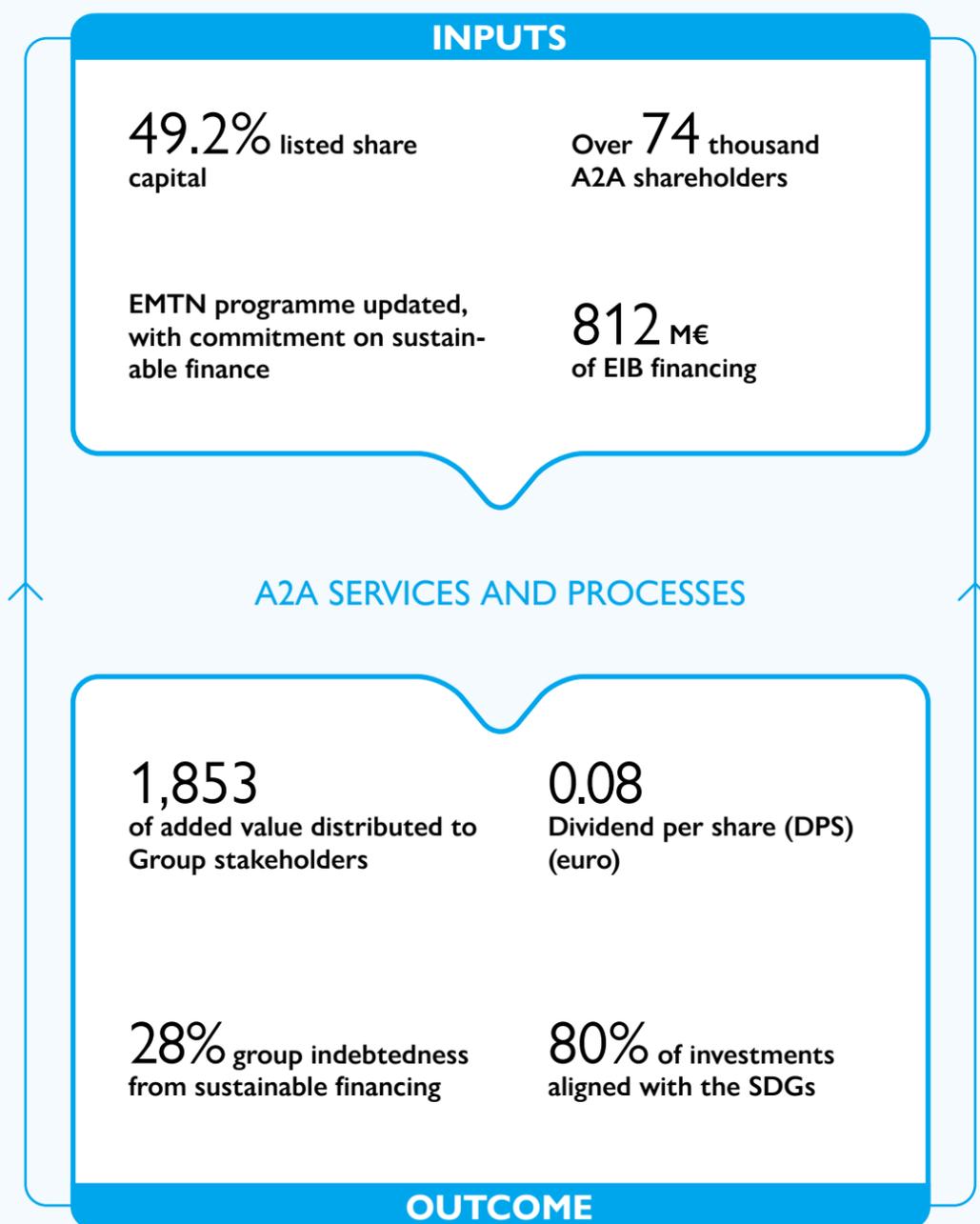
5

Financial capital



5

Financial capital



The growth of sustainable investments

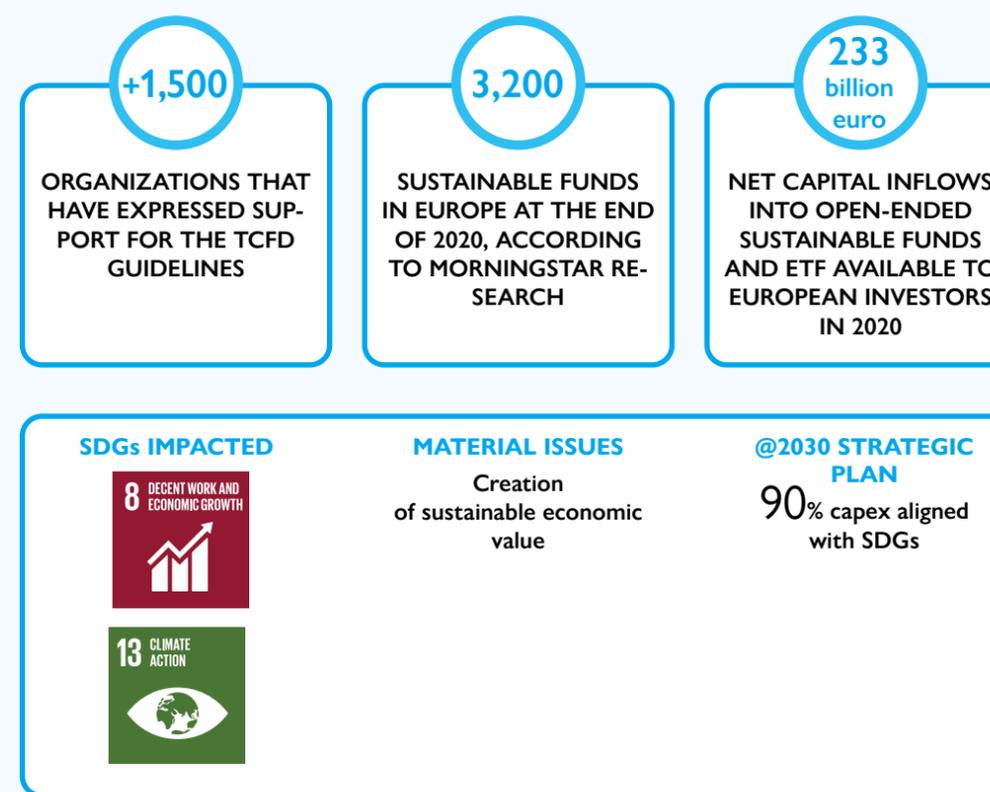
In addition to the pandemic, 2020 was marked by the increasing prominence of ESG issues in companies' analyses. Many investors and other stakeholders have expressed the need for **greater transparency on ESG strategies**, and many companies have sought to dig deeper into their strengths and weaknesses to identify new sources of value creation. In addition, Covid-19 reinforced the belief that companies with concrete sustainability strategies are better equipped to withstand shocks and crises such as the current one; **in fact, the value of ESG indices has outperformed the traditional market**. The issue of climate change and the related strategies of companies to counter it have been placed at the center of the analysis of giants such as Blackrock.

The roadmap "Towards a more resilient, sustainable and equitable Europe" - proposed by the European Commission - clearly indicated the need to react to the crisis with a " Marshall Plan for inclusive and sustainable growth", highlighting in this context the essential role of the European Green Deal. Thus, in July 2020, the 750 billion euro recovery plan called

"Next Generation EU" was approved. In September 2020, the **European taxonomy of sustainable investments** was approved, in which six environmental objectives are identified. It is established that an activity can only be considered "green" and access potential funding if it contributes to at least one of these objectives, without significantly damaging the achievement of any of the others.

The real effectiveness of these first measures will probably be seen in the coming months, with the publication of the final version of the Green Bond Standard and with the green bond market that - in accordance with the criteria of the new taxonomy - will reward and finance only those companies whose activities comply with European strategies. Green bond issuance is now on a clear upward trajectory due to the significant demand for green bonds.

Now more than ever, integrating ESG objectives into business and government strategies can be a critical driver of long-term value creation and success.



SOURCES

<https://www.fsb.org/wp-content/uploads/P291020-1.pdf>
<https://www.morningstar.it/it/news/209420/la-nuova-era-degli-investimenti-in-europa.aspx>

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Creation of sustainable economic value

Promotion of the redistribution to Group stakeholders of the economic value generated, the enhancement of environmental and social aspects to consolidate relations with the financial community, the ability to attract new investors sensitive to sustainability.



It should be noted that at December 31, 2020, the reporting scope of the following chapter is in line with that of the Group's Consolidated Report, thus taking into account the ACSM-AGAM Group, the AEB Group and the companies excluded for other reasons from the Integrated Report. The performance reporting of the ACSM-AGAM Group and AEB are discussed in the Supplement to this document. For more details, please refer to the Consolidated Report at December 31, 2020.

5.1 Value added produced and distributed

Value added is the wealth that the Group generates in the year. It is the difference between revenues on the one hand and the intermediate costs and accessory and extraordinary items on the other. This parameter measures the **financial effect of the business of the A2A Group on its main stakeholders** and therefore the Group's capacity to create value for its stakeholders. To determine the formation of value added, A2A uses the methodology defined Social Accounts Group (Gruppo per il Bilancio Sociale - GBS). In 2020, the gross global value added distributed by

the Group was 1,853 million euro (-3.8% on 2019), slightly down, mainly due to the causes related to the Covid-19 pandemic. Most of this was allocated to company remuneration (678 million euro), staff compensation (526 million euro, up 1% on the previous year) and transfers to the public administration (254 million euro). Transfers to the local community were more or less constant (69 million euro), while the remuneration of risk capital increased steadily (+10.4% compared to 2019).

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5.2 Relations with shareholders

The parent company, A2A S.p.A., is listed on the Milan stock exchange. The A2A share is traded on the electronic stock market and belongs to the FTSE-MIB segment and falls within the “Public Services” sector. Under article 9 of the company’s By-laws, no single shareholder other than the Municipalities of Brescia and Milan may hold more than 5% of share capital. Shares held in excess of the 5% limit have no voting rights.

Figure 10 A2A shareholding structure (at December 31, 2020)

Municipality of Milan	25.0%
Municipality of Brescia	25.0%
Treasury shares	0.8%
Market	49.2%

A2A has over **74 thousand** shareholders, divided between institutional investors and retail investors. **Institutional investors** hold approximately 35.9% of the share capital (36.6% in 2019). 25.4% of the free float in the hands of institutional investors is held by US investors, 18.8% by Italian investors, 14.1% by UK investors. There are also institutional investors with registered offices in Luxembourg (8.5%), French investors (8.4%), Dutch investors (4.1%) and German investors (3.4%).

The shareholder base includes numerous investors that have signed the *Principles for Responsible Investment* (PRI).

Retail investors total over 72 thousand and together hold 11.6% of share capital (10.7% of 2019). Almost all of the retail shareholding is resident in Italy and in particular, 58.2% in Lombardy. Investors residing in the provinces of Milan and Brescia hold 27% and 13.3%, respectively, of the total retail¹.



Figure 11 Share indicators

	2018	2019	2020
Dividend per share (DPS) (euro)*	0.07	0.0775	0.08
Dividend Yield (DPS/P)**	4.6%	4.8%	6.1%
Number of shares (million)	3,133	3,133	3,133

* Dividend proposed by the Board of Directors
 ** Calculated on average share price.

A2A in the stock market indices

Among the factors affecting share performance in 2020 were those arising from macro-economic and policy trends, the energy scenario and capital flows on international financial markets. The negative impact of the Covid-19 pandemic was significant, especially in March.

On the other hand, the company-specific factors include:

- in the first part of the year, uncertainty over governance;
- the growth of the dividend distributed;
- the strategic orientation of the new top management, appointed in May;
- opportunities related to growth in the circular economy and energy transition.

A2A forms part of the following indices: *FTSE MIB, STOXX Europe 600, STOXX Europe 600 Utilities, EURO STOXX, EURO STOXX Utilities, MSCI Europe Small Cap, WisdomTree International Equity, S&P Global Mid Small Cap.*

Relations with shareholders and investors

A2A is constantly committed to providing answers as precise and exhaustive as possible to the needs and specific requests of financial stakeholders. To this end, various communication tools and channels are used:

- institutional documentation (Annual Report, Integrated Report, Half-yearly Report, press releases, corporate presentations and meeting documentation); the presentations always include a focus on the effects of Covid-19 and the mitigation initiatives undertaken by A2A, including on ESG issues;
- *ad hoc* documentation (*Investor Guidebook* and *Investor Databook*);

- meetings with analysts and investors on the main international financial scenes (road shows, one-to-one meetings, group meetings, conference calls, etc.). Given the pandemic situation, activity continued in 2020 through virtual platforms;
- participation in industry conferences, including the fourth Italian Sustainability Day organised by Borsa Italiana.

The web also represents an effective communication channel with retail investors: the A2A website publishes the answers to the most frequently asked questions (FAQs). Retail investors can contact A2A by e-mail, via the form on the A2A website or by letter. Moreover, new information was added to the *Investor Guidebook*, a document that provides a comprehensive overview of A2A through the use of the main public information available.

The year 2020 was marked by a **significant increase in information requests and questionnaires from ESG investors and analysts**. In addition, the increasing relevance of passively and quantitatively managed funds (e.g. ETF) has led to the need to monitor the accuracy of public financial *databases*, which are the preferred information channel for this category of funds. In this regard, the *Investor Relations* unit has undertaken a multi-year project to reduce any errors and inconsistencies.

The engagement has continued in a structured manner with the main proxy agencies that provide institutional investors with voting recommendations on the items of the agenda of the Shareholders’ Meeting. 3 *Proxy Agency* published the pre-meeting report. As for the coverage of equity analysts, at the end of 2020, A2A was followed by 8 Italian and international brokers.

¹ The figures have been prepared on the basis of the shareholders’ register updated as of the distribution of the dividend on May 20, 2020.

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5.3 A2A in the sustainability ratings

One of the ways in which sustainability applies to finance is the practice of socially responsible investing (SRI), according to environmental, social and/or governance considerations integrate the financial assessments carried out at the time the choice is made to buy or sell a security. SRI is implemented with the inclusion of listed companies on **ethical indices**.

Responsible investment is implemented with the inclusion on the ethical indexes of listed companies meeting the main criteria of environmental, social and economic responsibility.

The Group is currently listed in the following ESG indices:

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

Since July 2018, A2A has also been included in the **FTSE4 Good Index Series**, the series of ethical indices of FTSE Russel designed to measure the sustainability performance (ESG) of companies in the main world markets.

Since 2018, A2A has decided to request a solicited rating from Standard Ethics in order to

obtain an external and independent assessment of its sustainability performance, based on a structured and validated assessment procedure. In 2020, Standard Ethics confirmed the previous EE rating.

A2A is also included in the Ethibel Excellence Investment Register and in the Ethibel Pioneer Investment Register.

In 2020, A2A confirmed its score of B- on the CDP *Water questionnaire*, while it obtained a score of A- in the *Climate Change assessment*, confirming its position as a **leader in the combat against climate change**.

In 2020, the Group also focused on questionnaires related to key issues such as *Diversity*, to assess its international positioning and any areas for improvement. For the first time, A2A responded to the Refinitiv Diversity & Inclusion assessment and to the questionnaire for inclusion in the Bloomberg Gender Equality Index, which has been carried out since this first attempt.

In addition, A2A participates in the assessments of Vigeo-Eiris, RobecoSAM, Sustainalytics, MSCI and the "Top 100 Green Utilities" (of the Energy Intelligence Group).

5.4 Sustainable finance

Over the past few years, a very strong relationship has developed between finance and sustainability. Not only new financial instruments have been created (e.g. *Green, Social, Sustainable Bond, Green Loan, Sustainability-Linked Loan, Sustainability-Linked Bond, EIB subsidised investments*), which also include sustainability impacts in their logics, but the assets managed according to sustainable and responsible investment strategies have increased exponentially.

The sustainable finance market experienced significant growth globally in 2020, with ESG bond issuance reaching a record high of over 460 billion dollars, up approximately 46% from 2019. This trend was primarily driven by *Sovereign and Supranational Agencies - SSAs*. In addition, in the wake of the Covid-19 pandemic, the *Sustainability and Social bond* categories have increased significantly over the past 12 months to account for approximately 47% of the total.

The Group continues to be a member of the **Corporate Forum on Sustainable Finance**, of which it has been a member since 2019. It aims to support and develop sustainable finance as a means of combating climate change and promoting a more sustainable economy through innovative financing instruments. Over the past two years, the *Corporate Forum on Sustainable Finance*, whose members come from 8 countries and 5 business sectors, has responded to seven consultations held by the European Union covering the topics: EU taxonomy, EU standard for green bonds, EU climate benchmarks and ESG disclosure on benchmark indices, renewed EU strategy for sustainable finance and EU review of the Non-Financial Reporting Directive.

In 2019, the Group adopted a **Green Financing Framework**, aligned with the *Green Bond Principles*

(GBP) published by the ICMA in 2018 and the *Green Loan Principles* (GLP) published by the LMA in 2018, on the basis of which A2A issued its first *Green Bond* in July 2019. In line with the path started with the drafting of the *Green Financing Framework*, the **EMTN programme was updated** in July 2020, with a **view to strengthening its commitment** to sustainable finance. A2A has decided to include in the document three KPIs linked to sustainability (*Science-Based Target, Renewable Photovoltaic Capacity, Biomethane Produced from Waste*). This update allows the Group to potentially issue *Sustainability-Linked Bonds*, providing for a possible step-up in the coupon if the pre-set targets are not reached. In early 2021, it was decided to update the *Framework* by also aligning it with the *Sustainability-Linked Bond Principles*, published by the ICMA in June 2020 and including the new KPIs in the 21-30 Plan.

In order to strengthen its commitment, identify and develop sustainable finance tools and ensure the correct management of the project selection and fund allocation process, in 2019, A2A created an inter-functional **Green Financing Committee**, chaired by Finance and consisting of Planning and Control, Sustainability Projects and Reporting, Strategy and Innovation. The *Green Finance Committee* defines the Group's guidelines for the selection of eligible projects, the rules for the proper management of funds arising from the subscription of loans and the monitoring of the positive impact on environmental and circular economy metrics. This Committee was set up with the aim of monitoring potential sustainable investment initiatives, underwriting any type of financial instrument dedicated to specific green projects and then guaranteeing their implementation. Strategic Planning and *Enterprise Risk Management* will also join in early 2021.



THE FIRST A2A GREEN BOND

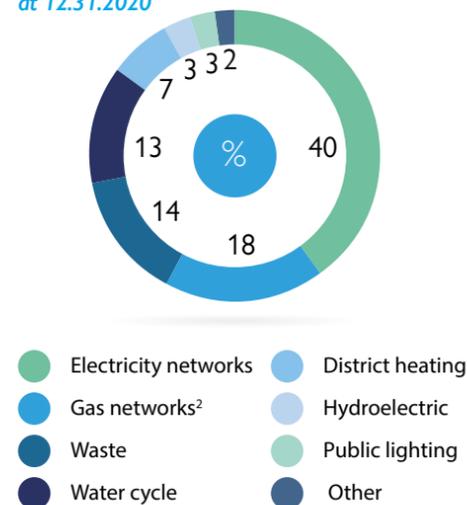
In July 2020, on the first anniversary of the bond issued in July 2019, A2A prepared and published the *Green Bond Report* (available on the A2A website), containing an indication of the projects financed with the relevant metrics. In particular, the report shows that the amount of funds raised was fully allocated. In accordance with market practice, the report has been certified by the independent auditor *Sustainalytics*.



Project type	Allocated (mln €)
PV Plants Acquisitions	156
Bioenergy Plants	103
WTEs Repowering and Energy Efficiency	50
Low impact vehicle - waste collection	27
New Waste energy Plant	70
New Recovery Plants - Plastic	13
Total	419

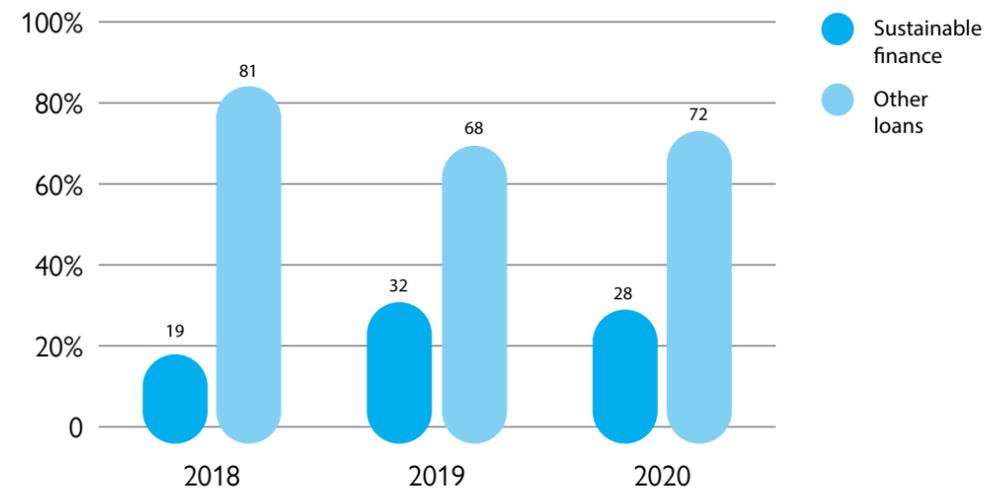
A2A has a solid and long-standing relationship with the **European Investment Bank (EIB)** to support the Group's investment programme. The European Institute finances **specific investment projects that meet particular sustainability requirements**, applying generally more advantageous economic conditions than the most common forms of financing. The EIB's periodic appraisal and monitoring process includes requests for information, including technical and financial information, and the possibility of inspecting the sites/plants concerned by the projects financed. At December 31, 2020, the value of these loans in the Group amounted to about 812 million euro.

Figure 12 EIB loans by destination (%) at 12.31.2020



² In November 2019, the EIB announced that it will stop financing fossil fuel projects, including gas, from the end of 2021.

Figure 13 Traditional sources of financing and sustainable sources of financing of the A2A Group in comparison



5.5 Capital expenditure

In 2020, the total amount of capital expenditure in the A2A Group was 738 million euro (+18% vs. 2019)³. Of 2020 investments, 80% are aligned with the UN Sustainable Development Goals.

Reformulating the investments according to the logic of the drivers, Circular Economy and Energy Transition, used in the new Strategic Plan, the 2020 capex is broken down as follows:

Figure 14 Capex by Business Unit (%)

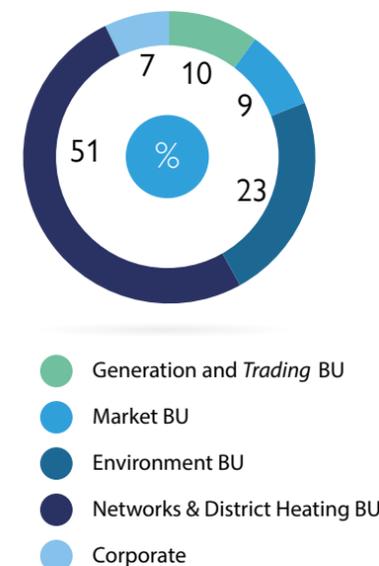
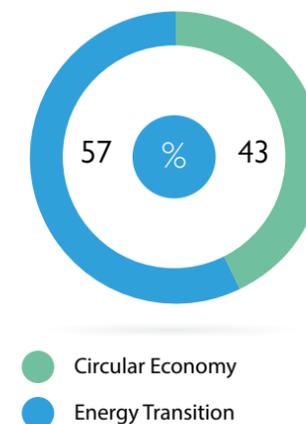


Figure 15 Investments by Plan drivers 21-30 (%)



For 2020, the **main investments concerned the Networks & District Heating BU**, with numerous interventions relating to gas distribution, to optimize the supply of the commodity. Significant investments were also made in the electricity distribution network, to ensure the stability of the electricity system, but above all to develop the new network. Also necessary due to the current emergency situation, during the year, the Group spent considerable sums on

Corporate ICT interventions, in order to allow employees to continue their activities. In line with past years, significant **work** was also carried **out on treatment plants**, with particular reference to the Parona waste-to-energy plant. In line with its strategic line of development of renewable sources and reduction of emissions, in 2020, the Group invested in **new renewable** projects, focusing particularly on the development of photovoltaic plants. In the case of water resources, the largest portion of capital expenditures went to improving, maintaining and securing **hydroelectric plants** as well as developing **new sewer systems**.

³ Net of eliminations

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