



Acea Green Financing Framework

January 2021

1. Introduction

“Our main objective is to improve the life of our customers by providing primary services in the territories in which we operate. We aim to consistently improve the quality of our services, through an efficient management of our infrastructures and through significant investments in technological innovation and sustainability.”

Established in 1909 as Azienda Elettrica Municipale (AEM) of the Municipality of Rome, Acea S.p.A (“**Acea**” or the “**Company**” and, together with its subsidiaries, the “**Group**”) is responsible for the development and management of the Rome’s essential infrastructure, providing the electricity and water services underlying the productive growth, social development and environmental balance of the city.

Throughout its history, Acea has taken advantage of the opportunities that came from the market, the regulatory context and its stakeholders, adapting its corporate and operational set-up to the most functional and efficient models. Starting from the local dimension, Acea has gradually grown into a nationwide industrial Group, working in the areas of integrated water management, electricity production, distribution and sales and environmental services, and has also expanded its presence to Central and South America.

The Group’s business operations encourage the sustainable development of the communities served, which is why sustainability is the essential value of the Group.

Acea is committed to providing a top quality service for citizens and businesses, by training and developing its staff, promoting a culture of occupational safety, promoting a circular economy and an efficient use of resources and via innovation at the service of its business.

The current development guidelines set out in Acea’s strategic plan are characterized by the consolidation of its leadership position in the water and energy infrastructure Italian markets as well as the further strengthening of the businesses managed in the sector of energy production from renewable sources, circular economy and in the distribution of gas. Furthermore, with more than 80% of EBITDA from regulated activities in recent years, Acea’s business model has consistently proven to be highly reliable and resilient.

Technological innovation and digitalization are the levers that make it possible for Acea to pursue operational efficiency and high quality of services, improving the development of

resilient and integrated network infrastructure able to deliver widespread and sustainable development.

In Acea, growth and value creation are intrinsically tied to the achievement of sustainability objectives, which are increasingly reflected in its performance indicators. Sustainability represents a characterising and structural element that guides the Group's business decisions and operational management.

2. Acea's Sustainability approach: commitment, policies and strategic objectives

Sustainability embedded in the Acea's Governance

Governance plays a fundamental role in steering the business of Acea, through the integration of sustainability among its principles, and generating growth and positive effects for all its stakeholders and the local communities it serves.

The Board of Directors has established the Ethics and Sustainability committee which:

- supports the Board of Directors in the context of corporate ethics and environmental, social and governance topics;
- promotes the integration of sustainability into the corporate strategy and culture. Supervises the main sustainability issues related to business activities and interactions with stakeholders;
- examines the guidelines of the sustainability plan and, once approved by the Board of Directors, supervises its monitoring;
- verifies the adequacy and implementation of the Code of Ethics;
- promotes a culture of diversity and fighting discrimination in the Company.

To further drive the sustainability efforts of the Group and integrate them into the strategy of the company, a new Investor Relations and Sustainability department has recently been set-up reporting to the Company's CEO.

Acea value chain

The Company's strategy promotes the progressive integration of sustainability into industrial objectives and the consequent evolution of governance, also in light of the evidence emerging from the materiality analysis and integrated risk vision, within the broader framework of the UN Sustainable Development Objectives (SDG) defined by Agenda 2030.

Looking after **vital resources** such as water and energy requires the management of complex infrastructures – networks and systems – in the areas concerned, with major impacts on **local communities**. Acea is committed to transforming these impacts into development opportunities for the Group and for its stakeholders:

- 70% of the energy currently produced is from renewable sources (as of 31 December 2019)
- 1,900 t of avoided CO₂ per annum in 2019 due to energy and water sector efficiency intervention
- 11,500 kN/m³ of biogas generated in 2019 at the waste recycling plant in Orvieto, which produced and released over 20 GWh into the network
- in support of energy transition Acea Energia has signed the first two **PPAs (Power Purchase Agreement)** for the supply of **1.5 TWh** of renewable energy for resale to customers in the period 2020-2022;

Transparent communication with **customers** helps Acea to respond more effectively to their needs and, in general, to the needs of the people who come into contact with the Company.

- 28,694 people involved in **customer satisfaction** surveys
- **green energy sold** in 2019 was 1,144 GWh, an increase of approximately +28.5% compared to 2018.

In Acea human capital represents one of the most important areas in terms of ESG and for this the Group focuses on activities which include employee engagement, training, valorization of know-how acquired and the development of potential, welfare initiatives, work-life balance, the sharing of strategic initiatives and the introduction of sustainability targets in the Company's performance management systems. As of December 31, 2019 98% of Acea group's employees are permanent workers and 22% of the total workforce are women.

The **growing presence of ESG investors in Acea's share capital**, representing 4% of the share capital equivalent to 26% of total institutional investors' base, is a testament to the results achieved in deploying its sustainability plan and initiatives.

In October 2020 Acea presented its strategic industrial plan and sustainability planning for 2020-2024.

The activities and investments that the Acea Group will deploy during the 2020-2024 Business Plan period is assessed to have a positive impact on Italian GDP for more than 6 billion Euro, directly or indirectly generating employment for over 21 thousand people.

The total investments foreseen in the 2020-2024 Business Plan amount to 4.7 billion Euro, approximately 700 million Euro higher than the previous Plan, and include 4.3 billion Euro related to industrial capex, of which over 80% in regulated businesses.

The Business Plan 2020-2024 envisages a significant growth coming from the water business, a strong growth in the generation of electricity from renewable sources, in the photovoltaic business, and the commitment to electric mobility. Energy transition and decarbonisation are reflected in the acronym **GRIDS** which summarizes the actionable levers on which Acea's Business Plan focuses:

- deliver continued growth (**Growth**),
- increase the development of renewables (**Renewables**),
- push on technological innovation also in industrial processes (**Innovation**),
- achieve ambitious targets and exceed them (**Delivery**),
- with an approach that sees sustainable development as a cornerstone (**Sustainability**)

The GRID ambition is at the core of the targeted main initiatives for each of Acea four areas of operation:

 <p style="text-align: right;">Water</p> <ul style="list-style-type: none"> • Development of a Smart Water Company for the sustainability of the water resource through improved quality and efficiency • Expansion through tenders in new territories 	<p>Main initiatives:</p> <ul style="list-style-type: none"> • Smart Water Meters installation plan and projects for grid compartmentation • On-going pursuit of water resources protection and losses reduction • Rationalization of small water purification plants • Water supply continuity through the doubling of Peschiera and Marcio Aqueducts
 <p style="text-align: right;">Energy infrastructure</p> <p>A leading player in the energy transition process through projects aimed at increasing electrification and integration of the distributed generation</p>	<p>Main initiatives:</p> <ul style="list-style-type: none"> • Investment in grids' resiliency with upgrades on specific cabins rewards with a premium vs. the references WACC

	<ul style="list-style-type: none"> • Digitalization through remote control and IoT Solutions • Development works on grids to reflect new regulation on service continuity • Installation of 2G meters
 <p style="text-align: center;">Environnement</p> <p>Market consolidation towards circular economy also with a «one-stop-shop» approach Acceleration to close the waste loop in Central Italy</p>	<p>Main initiatives:</p> <ul style="list-style-type: none"> • Strengthening Waste to Materials chain with circular economy approach • Disposal / treatment of organic waste
 <p style="text-align: center;">Engineering & Services</p> <p>Development of a building oriented company tasked with turnkey management of construction and engineering activities</p>	<p>Main initiatives:</p> <ul style="list-style-type: none"> • Integration of the acquisition of SIMAM and focus on core engineering activities • Construction of plants through internalization of construction activities with an EPC view

Investments in the new Business Plan are directly related to sustainability objectives.

In addition to being fully consistent with the Group’s industrial guidelines, the sustainability objectives are related to material topics and the relevant Sustainable Development Objectives of Agenda 2030.

In setting ambitious Targets for 2024 vs 2019, Acea supports many of the Sustainable Development Goals (SDGs) defined by the United Nations at 2030:

8	DECENT WORK AND ECONOMIC GROWTH	GDP and employment increase Preliminary and partial estimate only for the selected period	+5.8 B€ GDP	+21k stable FTEs
6	CLEAN WATER AND SANITATION	Water resource protection Losses reduction, IoT grids' management, rationalization of purification system	-11 pp¹ losses reduction (440+ Mm ³ of resource saved)	+36 rationalized purification plants
7	AFFORDABLE AND CLEAN ENERGY	Quality of electricity service Improved resiliency of electric grids	-40% Intervention Risk Index (IRI)	~2,600 cabins involved
9	INDUSTRY, INNOVATION AND INFRASTRUCTURE	Smart city Installation of EV charging stations and water / electric smart meters	+2,200 charging stations	~1.8M² 2G and water smart meter
11	SUSTAINABLE CITIES AND COMMUNITIES			
12	RESPONSIBLE CONSUMPTION AND PRODUCTION	Circular economy Waste treated with circular economy logics and reduction of sludge coming out of purification plants	+1.6 Mton (+120%) waste treated	-45% sludge coming out of purification thanks to process innovation (drying)
13	CLIMATE ACTION	Green energy Increase in production and consumption of green energy	-43% gCO ₂ /KWh produced by Acea produzione	>140 kton/y CO ₂ avoided for internal consumption

Note: (1) Weighted average for the area covered by the Group's services; (2) 1.3M of meters related to the Energy Infrastructure business (Areti) and 0.5M meters related to the Water business

Within its 4.7 billion Euro Business Plan, more than 2 billion Euro is related to specific sustainability targets with highest relevance and priority for the Group.

Breakdown of CAPEX related to sustainability targets:

	263 M€, 2020-2024	water losses reduction
	220 M€, 2020-2024	resiliency of Rome aqueduct system
	127 M€, 2020-2024	efficiency of purification system
	234 M€, 2020-2024	installation of smart meters for water and electricity
	492 M€, 2020-2024	resiliency and efficiency of electric grids
	58 M€, 2020-2024	infrastructure modernization & remote management
	445 M€ ⁽¹⁾ , 2020-2024	circular economy treatment of waste
	29 M€, 2020-2024	e-mobility infrastructure
	212 M€, 2020-2024	increase of green energy generation

Note: (1) Includes 206M€ of M&A capex

In particular, Acea aims to make positive contributions to the following SDGs:



Acea response to the COVID 19 urgency of the situation

With regard to the COVID-19 emergency situation, the Group immediately took all steps necessary to ensure continuity in the services provided throughout the territory, maintaining quality and efficiency, whilst also guaranteeing the safety of its people via the adoption and implementation of the required prevention protocols.

Especially in this moment Acea is aware of the absolute importance of the service it offers, bringing water and electricity into people's homes and putting the maximum effort every day in order to ensure that these primary resources are always available to everyone. This awareness is shared by all its employees who, with full responsibility, working either from home or on-site, have continued every day to guarantee the good quality of services.

The health emergency caused by the COVID-19 pandemic is still ongoing and is having social and economic impacts of such a magnitude and scale that cannot be underestimated or ignored. Indeed, for Acea, "Sustainability" is the ability to be present, here and now, as active and responsible as ever, meeting the needs of the community, and at the same time looking further ahead to the needs of a world that will inevitably be different from that of today. Even with regard to network infrastructure, value-added environmental services and utilities that are our core business.

3. Acea's Green Financing Framework

In line with Acea's 2020-2024 sustainability targets, selected based on their priority and relevance for the Group, Acea decided to set up this Green Financing Framework. Green financing instruments include Green Bonds and Green Loans issued or contracted by Acea or any of its subsidiaries.

The Acea's Green Financing Framework was established in accordance with the Green Bond Principles 2018, published by the International Capital Market Association (ICMA) as well as the Green Loan Principle 2020, published by the Loan Market Association (LMA), and their four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The Green Financing Framework is also intended to align (on a best effort basis and to the extent currently possible) with the Proposal for the EU Green Bond Standard, and the EU

regulation setting forth a framework to facilitate sustainable investments (Regulation (EU) 2020/852, the ‘EU Taxonomy’). Acea is committed to constantly improve its approach to sustainability and follow the best practices in the Green Finance market. Acea’s Green Financing Framework may therefore be amended and/or updated to reflect changes in market practice as well as regulatory developments.

3.1 Use of Proceeds

The main challenges for environmental sustainability dealt with by Acea during the year are included in the framework outlined in the 2030 Agenda and focus on a few key issues, including climate, water resources, circular economy and technological innovation applied to infrastructure management. With regard to climate change, the Group is undertaking initiatives aimed on the one hand at the process of adaptation to these changes, for example, by making infrastructure more resilient and incorporating the analysis of critical scenarios into operations, and on the other hand at the mitigation process through the progressive reduction of climate-changing emissions.

Acea’s Eligible Green Projects are divided between four green development axis aligned with the UN 2030 Agenda:

1. Water Management
2. Energy Efficiency
3. Circular Economy
4. Green Energy

Each of these four classes are defined as follow for the purpose of this Framework:

1. Water Management

Eligible Green Project category	Description of Eligible Green Projects	Environmental Objectives	UN SDGs
<p>Water Resource Protection</p>	<ul style="list-style-type: none"> • Investment aiming at reducing at least by 20% water losses and installation of gauges for pressure and flow rate management • Production and installation of water smart meters on the network • Water supply system aimed at increasing the resiliency of the water supply system. 	<p>Sustainable use and protection of water and marine resources</p>	

2. Energy Efficiency

Eligible Green Project category	Description of Eligible Green Projects	Environmental Objectives	UN SDGs
Resiliency of electricity distribution Infrastructure¹	<ul style="list-style-type: none"> Investments to reduce networks energy losses Investments in digital technologies to improve the management and increase the efficiency of the electric grid 	Climate Change Mitigation Climate Change Adaptation	 
Clean Transportation and Infrastructure for Low Carbon Transport	<ul style="list-style-type: none"> Installation of charging stations for electric vehicles and related services Acquisition of zero emissions vehicles 	Climate Change Mitigation	  
Smart Meters	<ul style="list-style-type: none"> Production and installation of energy smart meters on the network 	Climate Change Mitigation	  

3. Circular Economy

Eligible Green Project category	Description of Eligible Green Projects	Environmental Objectives	UN SDGs
Wastewater Treatment	<ul style="list-style-type: none"> Operation of wastewater collection and treatment aiming at reducing sewage sludge 	Sustainable use and protection of water and marine resources	  

¹ The transmission and distribution infrastructure or equipment in the system is the interconnected European system, i.e. the interconnected electricity system covering the interconnected control areas of Member States Norway, Switzerland and the United Kingdom, and its subordinated systems.

<p>Anaerobic Digestion of Bio-waste and/or Sewage Sludge</p>	<ul style="list-style-type: none"> • New and revamping of the Anaerobic digestion facilities. • Facilities and services related to composting of bio-waste 	<p>Climate Change Mitigation Transition to a Circular Economy</p>	<p>7 AFFORDABLE AND CLEAN ENERGY</p> <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p> <p>13 CLIMATE ACTION</p>
<p>Waste Management</p>	<ul style="list-style-type: none"> • Infrastructure to increase the total waste management capacity² • Installation of Smart composting systems 	<p>Transition to a Circular Economy</p>	<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>

4. Green Energy

Eligible Green Project category	Description of Eligible Green Projects	EU Environmental Objectives	UN SDGs
<p>Renewable Energy</p>	<ul style="list-style-type: none"> • Construction, acquisitions and development of photovoltaic plants and development of greenfield photovoltaic plants 	<p>Climate Change Mitigation</p>	<p>7 AFFORDABLE AND CLEAN ENERGY</p> <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> <p>13 CLIMATE ACTION</p>

Eligible Green Projects include refinancing and new financings of capital expenditures, selected operating expenditures such as maintenance costs related to green assets and, where applicable, research and development expenditures.

In the case of operating expenditures, this includes a look-back period of up to 3 calendar years prior to the issuance of Green Bonds.

² where the activity converts at least 50 %, in terms of weight, of the processed separately collected non-hazardous waste into secondary raw materials that are suitable for the substitution of virgin materials in production processes.

Through the Green financing instruments in the scope of this framework, Acea will not finance and/or refinance any projects related to fossils fuel activities and any energy production facilities with an energy intensity above 100gCO₂e/kWh.

3.2 Process of Evaluation and Selection

Acea's Green Finance Working Group is chaired by the CFO and is composed by members of the Finance, Planning & Control and Sustainability Planning & Reporting departments.

Acea's Green Finance Working Group will be in charge of monitoring the selection and allocation process as per the eligibility criteria defined in the Use of Proceeds section above.

As such, the Green Finance Working Group will be responsible for the following:

- Reviewing and validating the selection of Eligible Green Projects in accordance with the defined Eligible Green Project Categories listed in the Use of Proceeds section,
- Monitoring the Eligible Green Project portfolio during the life of the transaction. The working group or Committee can decide to replace an Eligible Green Project if it no longer meets the eligibility criteria,
- Monitoring any ESG controversy (such as controversies that may impact local communities or changes in ecosystems) that are directly related to an Eligible Green Project.
- If the Sustainability department deems that an eligible project becomes subject to a major ESG controversy, the Green Finance Working Group will analyze it and may decide to exclude and replace such Eligible Green Project,
- Managing any future update of the Green Financing Framework.

3.3 Management of Proceeds

An amount equivalent to net proceeds of each Green financing will be allocated to disbursements for Eligible Green Projects and managed by the Green Finance Working Group. For Bond issuances, Acea endeavors on a best effort basis to reach full allocation within two years following the issuance of each Green Bond.

The Green Finance Working Group will monitor and track the net proceeds through a dedicated reporting.

Pending full allocation, unallocated proceeds may temporarily be invested in accordance with Acea's investment guidelines in cash, deposits and money market instruments or Socially Responsible Investments.

3.4 Reporting

Acea commits to publish annually an allocation report and an impact report, as detailed below. The allocation report and the impact report will be provided until full allocation.

i. Allocation reporting

The reporting will be produced on a portfolio basis. It will provide:

- the amount of net proceeds allocated per Eligible Green Project category
- the percentage of refinancing in existing projects,
- the amount of unallocated proceeds, if any, at the date of reporting,
- location and status of the projects.

This information will be publicly available on the Acea’s website and/or in Acea’s non-financial reporting.

ii. Impact reporting

Acea will provide an impact report to support the allocation report described above.

Key environmental impact indicators per Eligible Green Project Category will include estimated expected impact reporting metrics when feasible, such as:

Pillar of Acea’s Business plan	Possible Output indicators	Impact indicators
Water Management	<ul style="list-style-type: none"> • Volume of water distributed (m³) • Numbers of gauges installed for pressure and flow rate management 	<ul style="list-style-type: none"> • Estimated annual reduction in volume of water losses (m³/year)
Energy Efficiency	<ul style="list-style-type: none"> • Number of charging point for electric vehicles installed • Number of users of the e-mobility platform • Number of smart meters installed 	<ul style="list-style-type: none"> • Estimated annual reduction in energy consumption (% or MWh/year) • Estimated annual reduction in GHG emission (tCO₂e/year)
Circular Economy	<ul style="list-style-type: none"> • Volume of water treated (m³) • Volume of sludge produced (t) • Amount of waste recycled (tons) • Amount of biogas/biomethane produced (m³) • Number of composting point installed 	<ul style="list-style-type: none"> • Estimated sludge reduced (t)

Green Energy	<ul style="list-style-type: none">• Installed energy capacity (MW)	<ul style="list-style-type: none">• Estimated annual reduction in GHG emission (tCO₂e/year)
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4. External Review

4.1 Second Party Opinion

A leading Second Party Provider will issue a Second-Party Opinion on the Framework, to confirm the alignment of the Framework to the ICMA's Green Bond Principles and LMA Green Loan Principle.

The Second Party Opinion document will be made available on Acea's website.

4.2 Post issuance external verification

An external verification on the allocation reporting will be provided, by Acea's auditors, on an annual basis and until the complete allocation of proceeds.

The external auditor will verify that the proceeds of the bonds are either allocated to Eligible Projects or invested in approved financial instruments. This will be published on Acea's website.

Disclaimer

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